


Exhibit 6

02-Feb-2023

Leslie's, Inc. (LESL)

Q1 2023 Earnings Call

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 **Corrected Transcript**
02-Feb-2023

CORPORATE PARTICIPANTS

Caitlin Churchill
Managing Director, ICR

Steven M. Weddell
Chief Financial Officer & Treasurer, Leslie's, Inc.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

OTHER PARTICIPANTS

Simeon Gutman
Analyst, Morgan Stanley

Peter Keith
Analyst, Piper Sandler

Rene Marin
Analyst, Guggenheim Securities LLC (Research)

W. Andrew Carter
Analyst, Stifel, Nicolaus & Co., Inc.

Ryan Merkel
Analyst, William Blair & Co. LLC

Jonathan Matuszewski
Analyst, Jefferies LLC

David Leonard Bellinger
Analyst, MKM Partners LLC

Peter Benedict
Analyst, Robert W. Baird & Co., Inc.

Garik Shmois
Analyst, Loop Capital Markets LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon and welcome to the First Quarter of Fiscal 2023 Conference Call for Leslie's Incorporated. At this time, all participants are in a listen-only mode. Following the prepared remarks, management will conduct a question-and-answer session. [Operator Instructions] As a reminder, this conference call is being recorded and will be available for replay later today on the company's website.

I will now turn the call over to Caitlin Churchill, Investor Relations. Thank you. You may begin.

Caitlin Churchill
Managing Director, ICR

Thank you and good afternoon. I would like to remind everyone that comments made today may include forward-looking statements which are subject to significant risks and uncertainties that could cause the company's actual results to differ materially from management's current expectations. These statements speak as of today and will not be updated in the future if circumstances change. Please review the cautionary statements and risk factors contained in the company's earnings press release and recent filings with the SEC.

During the call today, management will refer to certain non-GAAP financial measures. A reconciliation between the GAAP and non-GAAP financial measures can be found in the company's earnings press release, which was furnished to the SEC today and posted to the Investor Relations section of Leslie's website at ir.lesliespool.com. On the call today from Leslie's is Mike Egeck, Chief Executive Officer; and Steve Weddell, Chief Financial Officer.

With that, I'll turn the call over to Mike.

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

Thanks, Caitlin. And good afternoon, everyone. Thank you for joining us. Please note that we have posted a short earnings deck to Leslie's IR site that we will be referring to certain pages in that deck during our call. I'd like to start by reminding everyone that the first quarter is our smallest quarter of the year, representing only about 12% of total year sales. However, it is an important quarter as we take the actions, incur the expenses and make the appropriate investments to set ourselves up for the all important second half of our fiscal year, which is pool season across the country.

With that in mind, I'm pleased that we delivered overall Q1 performance that was in line with our expectations, despite some very challenging weather in the quarter. Sales for the quarter grew 6% to a record \$195 million. Average order value grew 7% and transactions were down 1%. Average revenue per customer grew 6% and our customer file was flat. Residential Hot Tub grew 35% in the quarter and PRO Pool grew 11%. Residential Pool sales decreased 3% in the quarter.

Comp sales decreased 4% for the quarter, which contributed to a two-year stack comp of plus 17%. Comp sales for the quarter were negatively impacted by wet and cold weather, particularly in Texas, California and the Southwest. Sales in Florida benefited from the clean-up associated with Hurricane Ian.

In total, our weather service provider calculated that weather was a 5% headwind to comp sales for the quarter. This is the first quarter since the positive impact of the Texas freeze in the second quarter of 2021 that weather has had a significant impact on our overall comp sales. Gross profit for the quarter was \$65 million and gross margin rate was down 290 basis points. Please refer to page 6 of our supplemental deck to review our Q1 margin rate bridge. As you can see, the primary drivers of the change in margin rate are: number one, business mix driven by acquisitions that disproportionately impacted margins in the quarter; two, incremental product costs in excess of retail price increases; three, incremental DC expense associated with the execution of our strategy to peak store and DC inventory earlier in preparation for pool season; and four, deleverage of occupancy costs driven by a decrease in comp sales. These factors are all reflected in our full-year guidance and we expect these same factors to impact our Q2 margin rate.

To complete our summary of Q1 financial performance, adjusted EBITDA for the quarter was negative \$12 million and adjusted diluted earnings per share were negative \$0.14. Given the seasonality of our business, the loss in the quarter was anticipated and does not change our expectations for the full year. Accordingly, we are reaffirming our full-year outlook we provided at our Investor Day in November. As we noted in November, we expected tougher first half comps this year and our first quarter results were in line with our internal expectations. However, the makeup of those results did have some differences from our full-year outlook.

As you can see, illustrated in the table on page 9 of the deck, total comp sales of minus 4% was less than our full-year guide of minus 2.5%. Comp sales for non-discretionary products ex Trichlor were down 3% in the quarter and had a total comp sales contribution of minus 2.5% versus our full year guide of plus 1.3%. Trichlor comp sales grew 8% in the quarter and had a total comp contribution of plus 1% versus our full year guide of minus 1.1%. We saw no price deflation versus the prior year's quarter or the fourth quarter of fiscal 2022. Discretionary product comp sales were down 11% in the quarter and had a total comp contribution of minus 2.5% versus a planned comp contribution of minus 2.7% for the year. Non-comp sales in the quarter were plus 9.6% versus our full-year guide of plus 5%.

In summary, non-discretionary sales ex Trichlor were not as strong as we expected due to adverse weather. Discretionary sales overall performed in line with our expectations, although hot tub sales were somewhat better than we expected. Trichlor outperformed as retail prices remained stable and non-comp sales outperformed driven by acquisitions and new stores. As we look to the second quarter, weather is projected to be less of a headwind, but we do expect our hot tub business to decelerate such that we continue to anticipate first-half comps to be as we described at our Investor Day.

Moving to the industry backdrop, the pool and hot tub industry experienced reduced consumer demand in the quarter. As you can see on page 10 of the deck, our specialty pool retail competitors, based on third party aggregated credit card data, experienced a decline in sales of 7.2% in the quarter. This softening demand has two primary components. First, as we discussed, concerning our own results, weather was a significant negative factor year-over-year for most markets. Second, consumers were less confident based on the challenging macroeconomic backdrop. For our business, we saw this decreased confidence manifested in consumer behavior changes, including purchases of smaller sizes of our two key sanitizers, Trichlor and Cal-Hypo and reduced units per transaction. UPT for the quarter was down 2%. Against this backdrop of reduced demand, the competitive advantages derived from our integrated system of physical and digital assets and our associates' strong execution of our diversified growth initiatives drove continued market share gains.

Turning now to the performance of our strategic growth initiatives, first, despite the macroeconomic and weather challenges in the quarter, our consumer file was flat versus the prior year's quarter and improved 200 basis points from our fiscal Q4 2022. Next, we continue to deepen our relationship with our consumers. Average revenue per consumer grew 6% in the quarter, and the number of loyalty members increased 15% over the prior year's quarter.

With regard to our PRO initiative, we ended the quarter with 2,850 [indiscernible] (00:08:58) contracts in place and we are currently operating 80 PRO locations. Our plan to convert 15 PRO locations and build 3 new PRO locations in 2023 remains on track, and all 18 locations are scheduled to be operating by the start of the pool season.

PRO consumer group sales grew 11% in the quarter, with comp sales down 4%. Our PRO comps were affected by the same factors we discussed for our overall business, as well as some product availability challenges with one equipment vendor. M&A was the standout contributor to the quarter, accounting for more than \$15 million in non-comp sales. Year-to-date, we have closed on two acquisitions that added six locations and we have another five acquisitions under LOI, that would add 13 locations. We expect to close the acquisitions under LOI prior to the start of pool season. [ph] The current macroeconomic (00:09:58) conditions in the pool and hot tub industry have created additional attractive acquisition opportunities and we plan to continue accelerating this initiative.

Regarding our residential whitespace initiative, in the quarter, we added five locations through acquisitions, opened one new store and closed two stores for a net increase of four locations. We currently operate more than 990 locations and we're on track to operate over 1000 locations by the start of the pool season.

For AccuBlue Home, we have finished consumer testing of the version 2.0 device and remain on track to launches initiative for pool season 2023. With regard to corporate governance, we have published the proxy for our Annual Shareholder Meeting scheduled for March 16, 2023. In the proxy, we announced that Ms. Jodee Kozlak will not be seeking re-election to our board and that Mr. Marc Magliacano of L Catterton will be resigning from our board, effective with the completion of our annual meeting. We thank Jodee and Marc for their service

and many contributions to Leslie's. In conjunction with these changes, we also announced that our board will be revised from 10 to 8 members.

Now, I'll turn it over to Steve to share more detail on our Q1 financial results.

Steven M. Weddell

Chief Financial Officer & Treasurer, Leslie's, Inc.

Thank you, Mike. And good afternoon, everyone. As Mike mentioned, our first quarter results were in-line with our expectations and we reported record sales for the quarter. We're grateful for our team as they continue to execute against our initiatives and prepare for pool season in 2023. For the first quarter, we reported record sales of \$195 million, an increase of 6% or 10 million when compared to the first quarter of fiscal 2022. Our comparable sales decreased 4% or \$7 million. This decrease is on top of our comparable sales growth of 21% in the first quarter of fiscal 2022 and calendar adjusted comparable sales growth of 26% in the first quarter of fiscal 2021.

Our comparable sales growth on a two-year stack basis was 17% and on a three-year stack basis was 42%. Our non-comparable sales totaled \$17 million in the first quarter of fiscal 2023, which was driven by seven completed acquisitions that added 32 locations, as well as eight net new store openings since the end of fiscal 2021.

Our comparable sales decreased by 4% for Residential Pool, 4% for PRO Pool, and 2% for Residential Hot Tub. On a two-year stack basis, we generated comparable sales growth of 14% for Residential Pool, 36% for PRO Pool, and 4% for Residential Hot Tub. Unfavorable weather had a 5% impact on sales growth during the first quarter, with the Texas market experiencing the largest impact. Gross profit decreased 3% or \$2 million when compared to the first quarter of fiscal 2022. And gross margin rate, which decreased in line with expectations, was down 290 basis points to 33.5% from 36.4% in the prior year.

On page 6 of our supplemental deck, I'll review our Q1 gross margin rate bridge in more detail. During the quarter, gross margins were impacted by the following. First, business mix lowered gross margins by 130 basis points, primarily related to M&A completed during the last 12 months. Second, lower product margins had a 40-basis-point impact as a result of higher input costs. During the quarter, promotional activity was flat to slightly down and did not have a material impact on our gross margins.

Third, occupancy costs deleveraged by 85 basis points due to rent increases and negative comparable sales growth. And finally, incremental distribution expenses lowered gross margin by 35 basis points. Distribution expenses were elevated as we executed on our plans to receive in and distribute more product to our store network earlier than last year in preparation for the coming pool season.

Now, I'll turn to SG&A. SG&A increased 16% or \$12 million when compared to the first quarter of fiscal 2022. We estimate inflation during the quarter increased SG&A by approximately \$5 million, primarily related to payroll and digital marketing spend. The current year quarter also has an additional \$4 million of non-comparable SG&A associated with acquired businesses. Adjusted EBITDA was negative \$12 million for the first quarter of fiscal 2023, which was slightly ahead of internal expectations. Adjusted net loss was \$25 million in the first quarter of fiscal 2023, compared to a loss of \$11 million in the first quarter of fiscal 2022. Interest expense increased to \$13 million during the quarter from \$7 million in the first quarter of fiscal 2022. And our effective tax rate remained consistent at 25%.

Adjusted diluted earnings per share was negative \$0.14 in the first quarter of fiscal 2023, compared to negative \$0.06 in the prior year. And basic and diluted weighted average shares outstanding were \$184 million in the first quarter of fiscal 2023, compared to \$189 million shares in the first quarter of fiscal 2022.

Moving to the balance sheet, we finished the first quarter of fiscal 2023 with cash of \$3 million and we had \$91 million outstanding on our revolver, compared to cash of \$53 million and no borrowings on our revolver at the end of the first quarter of fiscal 2022. The reduction in net cash was primarily due to investments in inventory and higher M&A activity during the past 12 months.

At the end of the first quarter of fiscal 2023, we had \$99 million available on our revolver. We ended the first quarter of fiscal 2023 with \$430 million of inventory, an increase of \$185 million or 76% compared to \$245 million at the end of the first quarter of fiscal 2022. The increase in inventory is primarily related to equipment, chemicals and M&A activity. Both the equipment and chemical product categories are non-discretionary in nature and are not subject to technology or fashion risk.

And as previously stated, our first priority is to put the company in a position to meet consumer demand for the season. In furtherance of that objective, we continue to view our current elevated inventory position as appropriate and sensible given the uncertainty of supply. We also have the ability to use our balance sheet as a competitive advantage and invest in higher inventory levels in both our stores and our distribution centers. When we believe we have sufficient inventory to meet consumer demand through season and after we see supply chains across the industry become more predictable, then we will strategically manage inventory levels down.

On debt, at the end of the first quarter of fiscal 2023, we had \$796 million outstanding on our secured term loan facility compared to \$804 million at the end of the first quarter of fiscal 2022. The applicable rate on our term loan during the first quarter was LIBOR plus 250 basis points and our effective interest rate was 6.1% compared to an effective interest rate of 3% during the first quarter of fiscal 2022.

Before I wrap up our first quarter performance, I'd like to share an update on our supply chain readiness. In November, we discussed specific actions we were taking to improve our supply chain across three key areas. First, expand capacity by implementing a two-shift, seven-day-a-week model during pool season for our distribution centers and by adding additional 3PLs to our network.


Second, stock more inventory across our network. And third, diversify our supply base. I'm pleased to report that we have made significant progress against all three of these areas, and our team is focused on meeting consumer demand across our entire network during the upcoming pool season.

Now, let me turn to our outlook for fiscal 2023. Our performance in the first quarter of fiscal 2023 was in line with expectations. And today, we are reaffirming the outlook we issued at the end of November. As we discussed a couple of months ago, we're expecting a more uncertain macroeconomic environment in fiscal 2023, up to and including a recession that will pressure industry sales, margins, and earnings growth. Approximately 80% of our sales are non-discretionary products and services, which will mitigate, but not eliminate a recessionary impact on our business.

For fiscal 2023, we continue to expect sales of \$1.56 billion to \$1.64 billion, gross profit of \$667 million to \$708 million, adjusted EBITDA of \$280 million to \$310 million, net income of \$131 million to \$146 million, adjusted net income of \$145 million to \$160 million and diluted adjusted earnings per share of \$0.78 to \$0.86, and diluted share count of 185 million shares to 187 million shares.

Finally, on our outlook, I want to remind everyone of the natural seasonality within our business. Our primary selling season occurs during our fiscal third and fourth quarters, which span April through September. We invest in our business throughout the year, including in operating expenses, working capital and capital expenditures

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related to our growth initiatives. While these investments drive performance during our primary selling season, they reduce our earnings and cash flow during the first half of our fiscal year.

Consistent with our commentary in November, in fiscal 2023, we expect negative comparable sales growth and significant gross margin declines in the first half of the fiscal year given the strength of the comparable periods in fiscal 2022 and fixed cost deleverage. We also expect to generate all of our adjusted EBITDA and earnings in the second half of the fiscal year.

In summary, during the first quarter of fiscal 2023, we generated record sales and performed in line with our expectations. We're grateful for the contributions of our entire team as they continue to execute against our initiatives and prepare for the 2023 pool season. And we will continue our relentless focus on enhancing our customers' experience and executing our initiatives to drive growth and market share gains.

And with that, I will hand it back over to Mike. Thank you.

Michael R. Egeck


Chief Executive Officer & Director, Leslie's, Inc.

Thanks, Steve. The pool and spa industry has proven over time to be one of the most durable and advantaged consumer products categories, but it does have some sensitivity to macroeconomic conditions. In addition, during periods that are not prime pool season, consumers can take some [ph] short cuts (00:21:24) in maintenance with less danger of lost swimming days, safety concerns and equipment damage from poor water care and maintenance. In the first quarter, we did see some indications of reduced confidence and demand from pool and spa owners, especially for discretionary products. This reduced confidence combined with some very unfavorable weather made for a challenging industry backdrop.

Against that backdrop, we feel good about meeting our internal profit expectations and growing our top line 6%. These results are a testament to our teams performing at a high level and to the ability of our diversified strategic initiatives to drive growth in adverse macro conditions. And importantly, we feel very good about the progress we made against our plans to de-risk our supply chain and ensure that we are in position to win big during the 2023 pool season.

With that, I will hand it back to the operator for Q&A.

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QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question is from Simeon Gutman with Morgan Stanley. Please proceed.

Simeon Gutman

Analyst, Morgan Stanley

Q

Hey. Good afternoon, everyone. Hope you're good. I think you've talked about this in the past, I wanted to ask what recession could look like for you. And I think there's a lot of puts and takes and who knows how the consumer will spend on travel and maybe it comes back into this category. But if there is a history lesson, and then just to clarify, [ph] minus 5 % (00:23:12) to flat, is that bracketing a potential recession or that is a non-recession scenario?

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. Thanks for the question, Simeon. The full-year guidance does include challenging macro conditions up to and including a recession. So that does bracket it, to answer your question. And you're right, there's a lot of puts and takes in there, right. A recession could slowdown spend on travel and could keep more people at home. You could also look for people to just try to skip some steps in pool maintenance, but they can only do that for a period of time, as you know. So, yeah, we're comfortable that our full-year guidance sufficiently brackets, economic conditions up to and including a recession.

Simeon Gutman

Analyst, Morgan Stanley

Q

Okay. And then a quick follow-up. How are – I don't know if it's a deflation or disinflation or price tracking relative to expectations and then demand for durables, you mentioned you're starting to see some pockets or – not durables, but, I guess, units per se. How are units tracking versus how you saw it and how is price tracking versus how you thought?

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. I'd start with price. Inflation was a little higher than we anticipated in the quarter, but it came down across all of our product categories. So definitely heading in the direction we anticipate, doesn't change our outlook for 5% for the full year. And in terms of durables, or if you would, big ticket items, we have seen some weakness in equipment. And at the same time, our equipment repair and parts businesses have picked up. So, there's a little bit of a signal that some people are looking to repair versus replace or upgrade right now. But I think we've got to keep in mind that this is a very small quarter for us. And it's not – we internally try very specifically not to take the trends that we see in Q1 and apply them to the balance of the year. Such a small quarter that a little bit of changes in consumer behavior or in this case, really challenging weather have an outsized impact on the quarter that just don't impact the full year.


Simeon Gutman

Analyst, Morgan Stanley

Q

Okay. Thanks, Mike. Good luck.

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Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

Yep. Thank you.

A

Operator: Our next question is from Steven Forbes with Guggenheim Partners. Please proceed.

Rene Marin

Analyst, Guggenheim Securities LLC (Research)

Hey, this is Rene Marin on for Stephen Forbes. I wanted to touch on the PRO side of the business. Can you discuss any incremental earnings from this customer? Additionally, can you discuss any notable trends with pricing in this segment? Thank you.

Q

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

Rene, that was specific to the PRO consumer. Is that correct?

A

Rene Marin

Analyst, Guggenheim Securities LLC (Research)

Yeah, yeah.

Q

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

Yeah. Our PRO businesses run through our Residential stores predominantly. And so, in the PRO business, we saw a similar impact as we did in residential due to the weather, so comps were down 4%. We looked very closely to see if we saw any signs of an increase in DIY behavior among our consumers and maybe some reduction in their use of PROs and we did not see anything of that nature in the data that we got. So I think for us, focused on smaller PROs and servicing them through our own retail stores, the PRO conversation is very similar to the – is very similar to the Residential conversation. We did see some of the PROs buying some smaller quantities of sanitizers. I think there's a feeling in the PRO market that chemical prices could come down. And I think they're trying to wait it out, frankly, a little bit. But we have not seen any indication of any deflation in chemicals at this point.

A

Rene Marin

Analyst, Guggenheim Securities LLC (Research)

Got it. Thank you.

Q

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

Yeah.

A


Operator: Our next question is from Ryan Merkel with William Blair. Please proceed.

Ryan Merkel

Analyst, William Blair & Co. LLC

Q

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Hey, guys. Thanks for taking the question. Can we start with inventory? Mike, the inventory kind of tops off the page and up a bit sequentially. How much is safety stock and when do you see inventory normalizing?

Steven M. Weddell

Chief Financial Officer & Treasurer, Leslie's, Inc.

Yeah. It's a great question, Ryan. Thank you for that. And as we think about our inventory growth, I mean, there's two key reasons that inventory is up. One is sales growth over the last year, last few years. And then importantly, this decision that we made to intentionally pull forward 2023 receipts in advance of season, we believe that pull-forward is appropriate. When you look at the last two years, the industry has had a number of supply chain challenges and we've had far too many out of stocks on key products and [ph] we're not (00:28:15) – unable to serve consumers. So, the pull-forward allows us to load our stores with more product and facilitate the replenishment cycle during the early part of our season. And it's also one of the reasons that you saw some of the distribution costs be a little bit higher in the last quarter as well. But again, the inventory that we're procuring today is for this season, and it's inventory that was being brought in earlier in preparation for season. It's not stocking up for kind of longer term needs.

Ryan Merkel

Analyst, William Blair & Co. LLC

Okay. So, very much on purpose, and I know some [ph] M&A is in there too (00:28:52)?

Steven M. Weddell

Chief Financial Officer & Treasurer, Leslie's, Inc.

Yeah, exactly.

Ryan Merkel

Analyst, William Blair & Co. LLC

Okay.

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

Yeah. Very purposeful. I mean, one thing I would add, Ryan, is, with our omnichannel capabilities, the ability to load up the stores kind of maximum capacity early and then keep it there year-round allows us to take advantage of ship from store.

Ryan Merkel

Analyst, William Blair & Co. LLC


Okay. And then my second question, I wanted to dig in on the discretionary sales, I think you mentioned down 11%. Could you just unpack some of the weaker categories? And I know you mentioned equipment, but, what else is in there?

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

Yeah. We consider most [ph] all (00:29:27) equipment non-discretionary, right. Heaters is probably the one we've talked about in the past that you don't have to have a heater to keep a pool maintained. And we did see heater sales down very much in line with what we saw in Q4 as well. In terms of other discretionary categories, as you might imagine, we've seen the aboveground pool business be very weak. Prices have come down considerably

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and there's a lot of excess inventory in the market. We're not playing a price game on that. So we've seen our sales come down as well. And then recreation products in general, floats and noodles and things like that have – are down considerably yet as we anticipated and aboveground pools is as we anticipated as well. We saw that start to occur very – actually in the fourth quarter and then also very early in Q1.

Ryan Merkel

Analyst, William Blair & Co. LLC

Got it. Yeah. Those categories make sense. Thanks.

Q

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

Yeah. Thank you.

A

Operator: Our next question is from David Bellinger with MKM Partners. Please proceed.

David Leonard Bellinger

Analyst, MKM Partners LLC

Hey, guys. Thanks for taking the question. First one on gross margins. Those seem to be back at Q1 of 2020 levels and even though sales were almost 40% lower back then. So, how should we think about the mix impact going forward? Is that the largest headwind we should keep in mind as we update our models here? And is that discretionary piece also playing into that as well?

Q

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

Yeah.

A

Steven M. Weddell

Chief Financial Officer & Treasurer, Leslie's, Inc.

Do you want to take that Mike?

A

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

Yeah, go ahead, Steve.

A

Steven M. Weddell

Chief Financial Officer & Treasurer, Leslie's, Inc.

Yeah. So, remember back, our guide in November was flat to negative 35 basis points for the year as we do anticipate a reduction in gross margins for the year. We talked about the first half being lower or down significantly, I should say, with some improvement in the back half. So, the core question that you're getting at is, is – will the current quarter impacts persist? And if not, why might they change as we work through the year? [ph] And so I may (00:31:39) kind of walk through each of the individual line items, but business mix, number one, related to M&A that we completed primarily in the back half of last year. As we work through this full year, it will be much less impactful on \$1.6 billion of sales versus the first quarter sales of \$195 million.

A

When you think about product cost, we're in the off season. So, our expectation is that by the time that full season starts, industry retail pricing will have caught up with industry cost increases. It maybe have seen somewhat of a

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slow adoption of some of those higher costs in the current environment, but absolutely expect that to occur. And then DC expenses in the first quarter, those expenses will moderate as we get in to the full year as well. We talked a lot about the challenges we had in our New Jersey, DC and vendor delivery cadence last year. And since we brought forward some of the inventory receipts and moving of that inventory around our network, we've also pulled forward some of those expenses as well. And then again, as we look to the second half and better comps, we're going to see occupancy normalize as well. So, no change to overall outlook that we provided back in November. Again, the 290-basis-point decline this quarter in line with our expectations and see a path to what we previously provided.

David Leonard Bellinger*Analyst, MKM Partners LLC*

Q

Got it. That's very helpful. And this is my follow-up here on, Mike, might some of your ending comments in the prepared remarks just on the indications of reduced confidence in the category. So, are you hearing that from your PRO customers as well, some of the larger PROs, particularly, and I'm just curious, if we were to see a wider slowdown across pool, would you see that more pronounced from the PRO or the DIY customer at first? Maybe just give us some thoughts there.

Michael R. Egeck*Chief Executive Officer & Director, Leslie's, Inc.*

A

Yeah. [ph] We – look (00:33:34) – I think the way to think about demand is to keep in mind, it's a very small quarter, right, for the hope for the whole industry, and I know we've said that a lot, but again, trying to extrapolate trends from this first quarter, which is, A, small, and B, had a really outsized weather impact, I just think that's tricky. And internally, we're trying not to do that. In terms of DIY versus Pro, as I had said in the earlier question, very similar behavior that we saw in both channels. And we looked really hard for any indication that there might be some switch from PRO to DIY and we did not see that. So we expect the PRO business to play out for the year as anticipated when we put on our guide and we expect the residential business to do the same.

David Leonard Bellinger*Analyst, MKM Partners LLC*

Q

Got it. Thank you.

Operator: Our next question is from Garik Shmois with Loop Capital Markets. Please proceed.

Garik Shmois*Analyst, Loop Capital Markets LLC*

Q

Hi, thank you. I'm just wondering if you could speak on the impact of Trichlor. Obviously, it held in here and you've said in the past you plan to hold on to as much as you possibly can, but just given the big delta between how resilient pricing has been so far versus what's in your guidance? I was wondering if you could maybe provide some perspective on if you would anticipate pricing to come down, when might that be, or if there's any signs of weakness that you're seeing at this point at all?

Michael R. Egeck*Chief Executive Officer & Director, Leslie's, Inc.*

A

Yeah, Garik. Thanks for the question. The pricing for pool season really gets [ph] set (00:35:26) Memorial Day weekend. We've talked about that a little bit before at some conferences as well as calls. That's when I would say the industry settles in on price for the balance of the pool season. So, up until that point, we try not to make any

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assumptions. We talked about at our Investor Day that there is a case for price deflation in Trichlor. We have not seen any evidence of that. We know that Trichlor costing is up. I think that is now set in the industry and it would be unusual for the industry to discount off of that. But there's a lot of – there's a lot of chatter about that potential outcome. So we're not discounting it, which is why we have it in our guide as a possibility. But to date, we haven't seen any inclination of price inflation in PRO or Residential. And just to reiterate, there's plenty of inventory in the channel. I would say everybody is fully inventoried in Trichlor.

Garik Shmois*Analyst, Loop Capital Markets LLC*

Q

Got it. That's helpful. A follow-up question is just, you spoke to the weather impacts on the quarter. It sounds like most of that was on the non-discretionary side. But I'm just wondering if there might possibly be any pent-up demand from any purchases that might have been pushed out due to the weather? Or should we assume that those sales were effectively lost with the poor weather in the quarter?

Michael R. Egeck*Chief Executive Officer & Director, Leslie's, Inc.*

A

Yeah. I think the answer is [ph] the C (00:37:06). I think, chemicals, right. That sales opportunity has probably passed. I think it remains to be seen on equipment because, , with the weather being as challenging it was, it impacted store traffic, site traffic, pools were not on people's minds. So, I think there's an opportunity to recover that. And again, super small quarter, outsized weather impact, [ph] we're (00:37:35) being very careful not to draw any trends for the full-year from it. And we didn't see anything despite those two factors that would tell us we need to.

Garik Shmois*Analyst, Loop Capital Markets LLC*

Q

Got it. Thanks.

Steven M. Weddell*Chief Financial Officer & Treasurer, Leslie's, Inc.*

A

Yeah. [ph] I'd only (00:37:47) – I'd add to it, Garik that, I think the lost sanitisation days in the calendar fourth quarter are de minimis, right. So I think Mike's right, it's more along the lines of traffic. And could that have deferred some purchases around sanitizers, sure. But a lost sanitization days just not meaningful.

Garik Shmois*Analyst, Loop Capital Markets LLC*

Q

Okay. Great. Thanks for that. Bust of luck.


Operator: Our next question is from Peter Keith with Piper Sandler. Please proceed.

Peter Keith*Analyst, Piper Sandler*

Q

Hi. Good afternoon, everyone. I want to follow up a little bit on the prior question on Trichlor, Mike, you had noted there's a lot of Trichlor inventory in the industry, so we'll see what happens with pricing. I guess, in the event there is some price cuts as we get closer to Memorial Day, how would that impact your product margins? Are you guys already kind of brought up on a lot of the Trichlor inventory and sort of stuck with your cost? How should we think about that flow-through if a deflation comes to be?

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Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. I believe our costs are set for Trichlor. So, if we – and I'd say the industry costs are set. So, if we see price deflation from this point, retail price deflation, that would be an impact on margins. It's also the reason I don't – we don't think we're going to see it in the industry. I don't believe there's a need for any price deflation. And in our mind, inventory, demand, supply, both domestic and import, has all kind of settled in at a specific price and a specific volume. And we consider the category healthy at the moment.

Peter Keith

Analyst, Piper Sandler

Q

Okay. And then maybe just on that same topic, [ph] there (00:39:36) seemed to be some concern or some speculation that that you and others in the industry are sitting on elevated chemical or Trichlor margins versus historic margins. Where are you on it relative to like a 2019 level? Are you in line or above on Trichlor, or what does that margin profile look like?

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. Peter, I'm sorry. I'm going to have to pull the competitive information on that one. We have grown margins throughout the quarters, though, as David brought up earlier on the question, we're closer to 2019 currently overall, but we expect to end the year in a better position than we were in 2019. And so, margins are up overall for the business. And I would say our Trichlor margins are higher. But to go into specifics, I'm going to have to decline that one.

Peter Keith

Analyst, Piper Sandler

Q

Okay. Fair enough. I appreciate that. Thanks for the insights.

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

A

Yep.

Operator: Our next question is from Andrew Carter with Stifel. Please proceed.

W. Andrew Carter

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thank you very much. Good evening. What I wanted to ask is you mentioned the smaller pack sizes are something you're seeing as a potential sign of consumer weaknesses. I guess, how do you compare those – that percentage of the volume versus, say, before the big Trichlor disruption where there was a 35 pound bucket of tabs and people thought they [ph] couldn't (00:41:05) get anything, they grab it? Second thing I'd ask is, wouldn't the smaller pack size be accretive to you from a product margin standpoint? And finally, depending on how you extrapolate that, is it an easy switch if you're over-inventoried at the store of big pack sizes to make that correction given pack sizes? Or are you stuck with it? Anything you can help out with there. Thanks.

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

A

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Yeah. Thanks, Andrew, for the question. The smaller sizes are a little more profitable for us. We do, particularly now that we do the bulk of our own tableting, have the ability to switch between bucket sizes during the season. The advantage we have this season is we're just fully inventoried across all sizes, but the behavior we're seeing in going to smaller sizes and this is – I'm going to say this is anecdotal from our stores, but we have a lot of stores. And it's a fairly common explanation when we ask our general managers what's going on, that people seem to be coming in with a monthly budget, if you would, for their pool. And so, they seem to be – you can't manage sanitizers down because your pool size doesn't change. What you can do is spread sanitizer purchases out by buying smaller buckets at a time. We think that's what we're seeing right now. But again, [ph] it's – small quarter, or (00:42:36) weather, try not to draw any trends from it.

W. Andrew Carter*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Appreciate that. Second question I would ask you and this kind of goes back to where you've kind of consistently shown that you've outperformed the industry. I know you said costs are set for you on Trichlor, costs are set for the industry. How do you think of the risk of your competitors sitting on too much inventory and that really being the leg down in deflation? And what's your visibility into that to be able to react quickly and be pre-emptive or whatever on that? Thanks.

Michael R. Egeck*Chief Executive Officer & Director, Leslie's, Inc.*

A

Yeah. I don't – I can only speculate about the level of competitors' inventory, but what we do know is that industry is fully inventoried. So, in that case, there is an opportunity for some irrational behavior. We have – like I said, we haven't seen that. I don't think we expect to see it. However, as we said at our Investor Day when we laid out our full year guidance, we're more than prepared to compete if we need to. What we're not going to do is lose market share in sanitizers. And we believe that we have a cost structure where we are more than able to do that now.

W. Andrew Carter*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Thanks. I'll pass it on.

Michael R. Egeck*Chief Executive Officer & Director, Leslie's, Inc.*

A

Thanks, Andrew.

Operator: Our next question is from Jonathan Matuszewski with Jefferies. Please proceed.

Jonathan Matuszewski*Analyst, Jefferies LLC*

Q

Great. Good afternoon and thanks for taking my question. My first question was just a follow-up on inventory. Curious if you could just break out, Steve, maybe just the increase in units versus price. Not sure if you could get as granular as the Trichlor units versus price, but that would be helpful. And then just a second piece of that first question is how you're thinking about the rate of inventory growth in fiscal 2Q, right? So, I think overall inventory balances were up around 74% this quarter. Just thinking how should we expect that rate of growth in fiscal 2Q. That's my first question. Thanks.

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Steven M. Weddell

Chief Financial Officer & Treasurer, Leslie's, Inc.

A

Yeah. So, both good questions. We certainly expect inventory to be up again in Q2. We typically will peak in our inventory the last couple of weeks of March, first couple of weeks of April, and then we start getting into kind of replenishment cycle as season starts to kick off. So, [ph] we (00:45:03) would expect inventory to be up again in Q2, less so than in Q1, but still dollar increase. When you think about inflation as they expand out and I talked through a fourth factor. It's equipment, it's chemicals, it's M&A, and it's inflationary, and inflation was a top four contributor to the increase year-on-year. Definitely have a larger increase from a unit perspective than from a cost perspective, but certainly have seen those costs flow through to the inventory balances as well.

We feel good about the inventory that we have in our facilities and in our stores. Again, when you think about that composition of product that we're bringing in early, it's high turn product, top SKUs that we know we need for full season. And where last year we talked a lot about kind of getting behind the curve and the replenishment cycle, we have more inventory available to distribute out to, whether e-commerce customers or to our retail locations to serve those consumers as season really gets kicked off. And again, consistent with prior years, I can't tell you the day or the week that season will really kick off, but it will be typically in the month of May. So, I feel good with the position that we have in inventory today.

Jonathan Matuszewski

Analyst, Jefferies LLC

Q

That's super helpful. And then just a follow up question on Trichlor. Mike, I think you mentioned you weren't seeing any evidence of price deflation. I think we've seen some online retailers maybe cutting price in January. Not sure if that's just a seasonal kind of promotion that they typically do. But any commentary on that would be helpful. Thanks.

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. There's a – there's some – there's a little bit of an import, I'm not going to actually call it questionable import, [ph] chlorine (00:47:00) running through Amazon at the moment, but it's quite small and it's literally small buckets. And there was something similar last year for a short period of time and then it disappeared. And I think – I think we're probably in a similar situation. There's always some competition around the edges. But in terms of our retail price competitors and our scale digital competitors, I think the Trichlor pricing is acting pretty rationally.

Jonathan Matuszewski

Analyst, Jefferies LLC

Q

That's great. Thanks for clearing that up.

Operator: [Operator Instructions] Our next question is from Peter Benedict with Baird. Please proceed.

Peter Benedict

Analyst, Robert W. Baird & Co., Inc.

Q

Hey, Mike, Steve, just a couple of questions. First, just on the sector supply chain. Maybe what – just help us what's still not operating efficiently, and you're bringing a lot of inventory in. I'm just curious, what areas of the business are you still kind of concerned about or maybe [ph] aren't (00:48:07) operating, I guess, fluidly at this point? That's my first question.

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Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. You know, Peter, [ph] as you'll (00:48:17) remember in Q3 and Q4 last year, we had some challenges with specialty chemicals in particular, and we said we would address that in two ways. We buy more earlier, which we've done, and we'd also diversify our vendors there, which we've done as well, [ph] survives to (00:48:36) point to one area that would be probably predominant. In terms of equipment, the equipment vendors have done a nice job getting themselves back on schedule fairly recent, and we have taken in a lot of equipment inventory purposely so that we won't be looking necessarily to reorder in season. [ph] We're purposely trying (00:48:59) to buy it upfront, which I think we've successfully done with all except maybe one vendor. And then in Trichlor that's really us and we control most of that supply chain now, particularly with our investment in Stellar for tableting. So we feel good about where we are with Trichlor, but we've also bulked up the inventory there as well, with the idea that we're going to pre-position a much higher percentage of it into the stores themselves.

And the only other area that's a little...

Peter Benedict

Analyst, Robert W. Baird & Co., Inc.

Q

Yeah.

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

A

...that's been a little bit challenging, but it's coming along nicely now is Cal-Hypo, kind of, the second largest sanitizer in the industry that was in rather short supply in Q4 and is just really now in December and January coming online and in the volumes we'd like.

Peter Benedict

Analyst, Robert W. Baird & Co., Inc.

Q

All right. That's very helpful. Thanks, Mike. And then just on the loyalty file up, I think you said it was up 15%. I think that's an improvement in the rate of growth relative to how it was running kind of last year, maybe talk about what's driving that and maybe the complexion of who you're bringing into loyalty file? Thank you.


Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. We're just – we're really pleased with how loyalty file is performing. It's now up to about 75% of our total sales. Membership continues to grow, and the members are continuing to get more productive for us. But probably what's most encouraging for us is, as we look at the different cohorts in our file, we have a, I'm going to say, a limited number of loyalty members who are in our top cohort, despite in total accounting for 75% of sales. And the way we look at that is a really significant opportunity to continue to trade people up through those cohorts. So a lot of the loyalty growth is coming from reactivations, right. Customers who have not – were in a loyalty program maybe much earlier, several years ago and have come back in as we've upped the marketing of it. And also we're signing up a nice – at a nice rate new loyalty members from our existing base that's predominantly in stores and then also digitally and those are predominantly brand new customers to Leslie's. So good. We feel really good about the loyalty file, not just for this quarter, but long term as we continue to build its productivity.

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Peter Benedict

Analyst, Robert W. Baird & Co., Inc.

Terrific. Thanks. Good luck, guys.

Q

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

Thank you.

A

Operator: We have reached the end of our question-and-answer session. I would like to turn the conference back over to Mike for closing comments.

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

Thank you, operator. And thank you all for joining us this afternoon. For those of you with pools (00:51:58), I would suggest you start thinking about pool season because as I believe we made clear at our call today, we certainly are preparing for it and looking forward to it. Thank you.

Operator: Thank you. This will conclude today's conference. You may disconnect your lines at this time and thank you for your participation.

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Exhibit 7

03-May-2023

Leslie's, Inc. (LESL)

Q2 2023 Earnings Call

Leslie's, Inc. (LESL)
Q2 2023 Earnings Call

 Corrected Transcript
03-May-2023

CORPORATE PARTICIPANTS

Caitlin Morahan Churchill
Managing Director, ICR

Steven M. Weddell
Chief Financial Officer & Treasurer, Leslie's, Inc.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

OTHER PARTICIPANTS

Steven Forbes
Analyst, Guggenheim Partners

Kate McShane
Analyst, Goldman Sachs & Co. LLC

Hannah M. Pittock
Analyst, Morgan Stanley & Co. LLC

Peter Jacob Keith
Analyst, Piper Sandler & Co.

Garik Shmois
Analyst, Loop Capital Markets LLC

W. Andrew Carter
Analyst, Stifel Financial Corp.

Jonathan Matuszewski
Analyst, Jefferies LLC

David Leonard Bellinger
Analyst, ROTH MKM

MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Leslie's, Inc. Q2 2023 Earnings Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Caitlin Churchill of Investor Relations. Thank you. And you may proceed, ma'am.

Caitlin Morahan Churchill
Managing Director, ICR

Thank you and good afternoon. I would like to remind everyone that comments made today may include forward-looking statements which are subject to significant risks and uncertainties that could cause the company's actual results to differ materially from management's current expectations. These statements speak as of today and will not be updated in the future if circumstances change.

Please review the cautionary statements and risk factors contained in the company's earnings press release and recent filings with the SEC. During the call today, management may refer to certain non-GAAP financial measures. A reconciliation between the GAAP and non-GAAP financial measures can be found in the company's earnings press release, which was furnished to the SEC today and posted to the Investor Relations section of Leslie's website at ir.lesliespool.com. On the call today from Leslie's is Mike Egeck, Chief Executive Officer, and Steve Weddell, Chief Financial Officer.

With that, I will turn the call over to Mike.

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

Thanks, Caitlin. And good afternoon, everyone. Thank you for joining us today. Please note that we have posted a Q2 2023 earnings deck to the Leslie's IR site and that we will be referring to certain pages in that deck during our call.

Like to start by saying that Q2 came in at the low end of our expectations from the top and bottom line, as the performance of our non-comp business only partially offset, it returned to more normalized pre-pandemic seasonal consumer purchase patterns, as well as unexpected weather headwind.

With regard to consumer purchase patterns, the seasonal normalization was anticipated, but not to the degree we saw in the quarter. As a result, it had a more significant impact on comp sales and gross margin. Prior to the pandemic, Q2 historically contributed about 12% to 12.5% of our total year sales, and the first half contributed about 25% of total year sales.

However, last year, Q2 2022 represented an outsized contribution of 14.6% of total year sales as pandemic-driven supply chain disruptions and product shortages resulted in consumers buying earlier than normal. We estimate this 210-basis-point shift in contribution increased last year's Q2 sales by about \$33 million and creating corresponding 14% comp headwind in this year's Q2.

With supply chain issues largely behind us and inventory for most products in the pool industry now readily available, we believe we are seeing a return to a more normalized pre-pandemic revenue contribution breakdown, with 25% in the first half of the year and 75% in the second half. To be clear, we believe this change in seasonal consumer purchasing behavior is a timing shift and not a reduction in underlying demand for the year.

With regard to weather, in Q2, we saw the continuation of challenging weather conditions across the west and southwest, which includes the important California, Arizona, and Nevada markets. As you will recall from our Q1 call, our weather reporting service calculated that weather was a 5% headwind to comps in the first quarter. At the time, we also shared that we were projecting more normalized weather for our fiscal Q2. That prediction proved to be incorrect and the impact of weather to our Q2 comps was negative 3% or \$7 million in the quarter. We are encouraged that in Texas and Florida, where weather followed more normal seasonal patterns, we had double-digit positive comps.

Moving to our Q2 results. Sales for the quarter decreased 7% to \$213 million. First-half sales of \$408 million decreased 1%. Transactions for the quarter grew 1% and average order value was down 8%. Our customer file was flat and average revenue per customer was down 7% in the quarter. By consumer group, PRO Pool grew 3%, Residential Hot Tub sales decreased 8%, and Residential Pool sales decreased 9%.

Comp sales decreased 14% for the quarter, resulting in a flat two-year stack comp and a three-year stack of 35%. The comp from the first half was minus 9%, inclusive of a 4% weather headwind. The two-year comp sales stack was 7% and the three-year stack was 38%. Gross profit for the quarter was \$71 million and gross margin rate was down 410 basis points. In total, 210 basis points of our gross margin decline was related to deleverage of fixed costs resulting from our comp sales decline.

Adjusted EBITDA for the quarter was negative \$8 million and adjusted diluted earnings per share were negative \$0.14. As we noted at our Investor Day in November and during our Q1 earnings call, we expected Q2 and the

first half to generate negative comps, reduced gross margin rates, and negative EBITDA. Given that our second quarter and first half results were in-line with the low end of the range contemplated by our initial full-year guidance and that we expect that 75% of our annual performance is in front of us, our outlook for the full year remains unchanged.

Moving to the chart on page nine of the deck. For the quarter, total comp sales were down \$31 million or 14% due to weather and the shift back to normalized seasonal consumer purchase patterns. Sales for non-discretionary products ex trichlor were down \$3 million or 2% in the quarter. Trichlor sales were down \$10 million or 29% in the quarter. As a reminder, trichlor sales were comping against plus-96% in Q2 2022, as customers bought early in anticipation of end season shortages. Trichlor retail pricing remains stable.

Discretionary product sales were down \$18 million or 38%. The decrease in discretionary product sales was driven by hot tubs and aboveground pools as consumer confidence, weather, tax refunds, and interest rates all impacted demand for these high ticket items. And non-comp sales contributed plus \$16 million or 7% to the quarter, driven by the performance of our programmatic M&A initiatives and new store builds as we continue to invest in our opportunity for increased location count.

Page 10 has the same bridge for the first half. Total comp sales were down \$39 million or 9% due to a 4% weather headwind and the normalization of seasonal purchase patterns that we believe we are seeing. Non-discretionary product sales ex trichlor were down \$8 million or 3%. Trichlor sales were down \$9 million or 17%. Discretionary product sales were down \$22 million or 25%. And non-comp sales contributed plus-\$34 million or 8% of sales in the half.

Moving to the industry backdrop. Sales across the pool and hot tub industry were down in the quarter. As you can see on page 11 of the deck, third-party aggregated credit card data indicates specialty pool retailers experienced a sales decline of 11% in the quarter. This was due to three primary drivers. First, as we discussed concerning our own results, weather was a significant negative factor year-over-year for key markets. Second, we believe the specialty pool retail industry is experiencing the same shift to normalized seasonal consumer purchase patterns that we are seeing in our business. Third, consumers were less confident based on the challenging macroeconomic backdrop, which included higher interest rates, materially reduced tax refunds, and concerns around the stability of the banking system.

Against this backdrop of lower demand, we grew market share again. The competitive advantages derived from our integrated system of physical and digital assets and our associates' strong execution of our diversified growth initiatives drove nearly 500 basis points of sales outperformance in the quarter.

Turning now to the performance of our strategic growth initiatives. First, despite the macroeconomic and weather challenges in the quarter, our customer file was flat versus the prior year's quarter. Average revenue per customer was down 7% in the quarter, driven primarily by decreases in big ticket items, specifically hot tubs and aboveground pools. The number of loyalty members increased 14% over the prior year's quarter, as consumers continued to react favorably to the benefits of our Pool Perks loyalty program.

With regard to our PRO initiatives, we ended the quarter with more than 3,300 PRO contracts in place and completed the conversion of 15 residential stores to our PRO format. In addition, we opened two new PRO locations in the quarter and remain on track to open a third. We are currently operating 98 PRO locations. PRO consumer group sales grew 3% in the quarter, with comp sales down 10%. Our PRO comps were impacted by the same factors we discussed for our overall business. We also saw some softening in trichlor wholesale prices

from certain distributors. Given the 2023 trichlor cost structure and the industry history of rational PRO pricing, we expect prices to firm up as we move into pool season.

M&A was a strong contributor to the quarter, accounting for \$14 million in non-comp sales. Year-to-date, we have closed on four acquisitions that added 10 locations and we have another two acquisitions under LOI. Our deal pipeline is robust and we plan to continue to accelerate this initiative. Regarding residential whitespace, in the quarter, we opened four new stores and, in April, we were pleased to announce the opening of our 1,000th store, an important and gratifying milestone for our business and team members.

For AccuBlue Home, we have received our first production shipments of the version 2.0 device and look forward to launching this initiative later this month.

Now, I'll turn it over to Steve to share more detail on our Q2 financial results.

Steven M. Weddell

Chief Financial Officer & Treasurer, Leslie's, Inc.

Thank you, Mike. And good afternoon, everyone. For the second quarter, we reported sales of \$213 million, a decrease of 7% or \$15 million when compared to the second quarter of fiscal 2022. Our comparable sales decreased 14% or \$31 million. Our comparable sales growth on a two-year stack basis was flat, and on a three-year stack basis was positive 35%. Our non-comparable sales totaled \$16 million in the second quarter of fiscal 2023, which was driven by eight completed acquisitions that added 27 stores as well as 11 net new store openings since the end of the first quarter of fiscal 2022.

Our comparable sales decreased by 11% for Residential Pool, 10% for PRO Pool, and 35% for Residential Hot Tub. On a two-year stack basis, we generated comparable sales growth of positive 2% for Residential Pool, positive 7% for PRO Pool, and negative 18% for Residential Hot Tub.

Mike discussed the impact of unfavorable weather and more normalized seasonal customer purchasing patterns. With product more available across the industry this year, we believe consumers are more closely aligning their purchases with their need for product during the primary pool season, which runs from May to September. This behavior would be more consistent with seasonal purchasing patterns prior to supply chain challenges created by the pandemic.

It's important to note that we believe this behavior impacts the timing of sales, not the absolute dollars expected to be generated this year. Gross profit decreased 17% or \$14 million when compared to the second quarter of fiscal 2022 and gross margin rate was down 410 basis points to 33.4% from 37.5% in the prior year period.

Page 12 of our supplemental deck illustrates our Q2 gross margin rate bridge in more detail. During the quarter, gross margins were impacted by the following. First, business mix lowered gross margins by 45 basis points, primarily related to M&A completed during the last 12 months. Second, lower product margins due to higher input costs had a 60-basis-point impact. During the quarter, promotional activity was stable and did not materially impact gross margins. Third, distribution expenses lowered gross margin by 75 basis points, of which 55 basis points was due to the decline in comparable sales. Similar to the first quarter, distribution expenses were elevated as we executed on our plans to receive in and distribute more product to our store network earlier than last year. And finally, occupancy and other costs deleveraged by 230 basis points, of which 155 basis points was due to the decline in comparable sales.

Now, we'll turn to SG&A. SG&A increased 8% or \$7 million when compared to the second quarter of fiscal 2022. We have been focused on maximizing efficiencies in the business and driving ongoing organizational optimization. As a result, in Q2, we reduced core SG&A costs by \$4 million, which was offset by \$5 million of non-comparable costs associated with acquired businesses, higher inflationary costs of \$4 million primarily related to increased investments in our associates and \$2 million of costs associated with the organizational optimization.

Adjusted EBITDA was negative \$8 million for the second quarter of fiscal 2023. Adjusted net loss was \$26 million in the second quarter of fiscal 2023, compared to an adjusted net loss of \$3 million in the second quarter of fiscal 2022. Interest expense increased to \$17 million during the quarter from \$7 million in the second quarter of fiscal 2022. And our effective tax rate decreased to 25.7% compared to 33.0% in the second quarter of fiscal 2022.

Adjusted diluted loss per share was \$0.14 in the second quarter of fiscal 2023, compared to an adjusted net loss of \$0.01 in the prior year. And basic and diluted weighted average shares outstanding were 184 million in the second quarter of fiscal 2023, compared to 183 million shares in the second quarter of fiscal 2022.

Now, we'll turn to year-to-date results. Total sales for the 26-week period decreased \$5 million or 1% to \$408 million from \$413 million in the prior year. Our comparable sales decreased 9% or \$39 million. Our first half comparable sales growth was positive 7% and positive 38% on a two and three-year stack basis, respectively. Gross profit decreased 11% or \$16 million to \$136 million from \$152 million in the first half of fiscal 2022. Gross margin rate decreased by 360 basis points to 33.5% from 37.0% in the prior year, of which 145 basis points was due to negative comparable sales growth in the first half of fiscal 2023.

Adjusted EBITDA was negative \$20 million for the first half of fiscal 2023. Adjusted net loss was \$51 million in the first half of fiscal 2023, compared to an adjusted net loss of \$14 million in the prior year. Interest expense increased to \$31 million during the first half of 2023, from \$14 million in the prior year. And adjusted diluted loss per share was \$0.28 in the first half of fiscal 2023, compared to an adjusted net loss of \$0.07 in the prior year.

Moving to the balance sheet. We finished the second quarter of fiscal 2023 with cash of \$9 million and we had \$172 million outstanding on a revolver compared to cash of \$52 million and \$45 million outstanding on our revolver at the end of the second quarter of fiscal 2022. The reduction in net cash was primarily due to investments in inventory and higher M&A activity during the past 12 months. We ended the second quarter of fiscal 2023 with \$492 million of inventory, an increase of \$147 million as compared to the second quarter of fiscal 2022. This is a lower increase in inventory in both dollars and percentage terms on a sequential and on a year-over-year basis. Similar to prior quarters, the increase in inventory was primarily related to chemicals, equipment, M&A and inflation. Both the chemical and equipment product categories are non-discretionary in nature and are not subject to technology or fashion risk.

As previously stated, our first priority has been to put the company in a position to meet consumer demand for the upcoming pool season. And the decision whether to invest in inventory ahead of the season or as the season progresses was a question of timing. We continue to view our current inventory position as appropriate to deliver on our full year plan and believe that inventory levels have peaked for fiscal 2023.

At the end of the second quarter of fiscal 2023, we had \$794 million outstanding on our secured term loan facility compared to \$802 million at the end of Q2 last year. The applicable rate on our term loan for the second quarter was LIBOR plus 250 basis points, and our effective interest rate was 7.2% compared to an effective interest rate of 3.0% for the prior year quarter.

In March 2023, we amended our ABL credit facility to replace the existing LIBOR-based rate with a term SOFR-based rate as an interest rate benchmark, and to increase our revolving credit commitments to \$250 million from \$200 million to account for our growth over the last two years. Other material terms of the facility remain substantially unchanged, including the maturity date of August 2025.

At the end of the second quarter, we had availability of \$67 million on our revolver. We believe borrowings on our revolver have peaked and we expect to fully repay all ABL borrowings during the third quarter.

Before I wrap up on our year-to-date performance, I'd like to share a final pre-season update on our supply chain readiness. In November, we discussed specific actions we were taking to improve our supply chain across three key areas. First, expanding capacity by implementing a two-shift seven-day a week model during pool season for our distribution centers and by adding an additional 3PLs to our network. Second, stocking more inventory across our network. And third, diversifying our supplier base.

Based on the efforts of our associates and in collaboration with our vendor partners, we've significantly improved our preparedness for pool season by executing these initiatives, and our team is focused on and well-prepared to meet consumer demand across our entire network.

Before I turn to our outlook, I want to put our first half performance in context and speak to the natural seasonality within our business. Our primary selling season occurs during our fiscal third and fourth quarters, which span April through September. We invest in our business throughout the year, including in operating expenses, working capital and capital expenditures related to our initiatives.

While investments made during the first half of the fiscal year impact reported earnings and cash flow, they are critical for driving performance and share gains during our primary selling season in the third and fourth quarter. Based on performance for the first half of the year, which is in line with historical seasonal trends prior to the pandemic, we are reaffirming our outlook. And while we're tracking within the dollar ranges on the line items included in our outlook, the early read from first half gross margins suggests we could experience some incremental pressure on the range of gross margin rates for the year.

With 75% of our annual sales and all of our profit ahead of us, our teams remain steadfastly focused on superior execution for pool season 2023. We're excited to kick off pool season and we're grateful for our team that continues to tirelessly execute against our initiatives and focus on serving our customers.

And with that, I'll hand it back over to Mike. Thank you.

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

Thank you, Steve. The pool and spa industry has proven over time to be one of the most durable and advantaged consumer products categories. And the fundamental drivers of the aftermarket pool business remain intact. Pool care is complex. Pools require routine ongoing needs-based maintenance. And the installed base of pools in the US has grown every year for 51 years and continues to grow. Also importantly, there are secular tailwinds that will continue to drive industry growth. Consumers are investing in their homes and backyards, moving to the Sun Belt and exurbs, pursuing outdoor lifestyles, working from home, increasing attention to safety and sanitization, and adopting new technologies.

Despite the fundamental long-term advantages of our industry and the ongoing secular tailwinds, Q2 in the first half performance for Leslie's and the industry were influenced by unfavorable weather and the greater than

anticipated normalization of consumer purchase behavior, the latter, which we believe is simply a timing factor. These dynamics notwithstanding, we are encouraged that applying a normalized pre-pandemic first half, second half contribution split to our first half results indicates our full year sales and earnings guidance is still appropriate. We feel good about our first half execution and the continued market share gains we have delivered in the face of an unpredictable backdrop for our industry. Our results are a testament to our team's continuing to perform at a high level. The competitive advantages of our integrated ecosystem and to the ability of our diversified strategic initiatives to drive market share gains, even against a very dynamic backdrop.

Importantly, we feel very good about the investments we have made in preparation for the 2023 pool season. Specifically, investments and inventory. After three years of intermittent out of stocks, our teams are thrilled to have their stores full and to know that we have replenishment stock ready to go. Investments in our supply chain, new leadership, new talent, new processes such as two shifts, seven-day a week operation at our distribution centers, new infrastructure, 3PL partner for the Northeast region, and additional chemical warehousing in Texas. And investments in our marketing initiatives that have given us more customers, more PRO Partners, and more loyalty members to serve. With these investments and the return to more normalized industry conditions, our store and digital teams are confident about winning this pool season. And the leadership team and I share that confidence.

With that, I will hand it back to the operator for Q&A.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] Please limit your questions to one question and one follow-up question. [Operator Instructions] The first question comes from Steven Forbes from Guggenheim Partners. Please proceed with your question, Steven.

Steven Forbes

Analyst, Guggenheim Partners

Q

Hi. Good afternoon, Steve, Mike. I wanted to start with customer file trends. So, curious if you can sort of talk about the file performance during the quarter because I think flat was better than the internal expectation, maybe confirm that?

And then, Steve, if you can, just comment on what gives you confidence, right, to reiterate the sales guidance, because I also believe the expectation for file growth – or the expectation was file growth returning in the back half of the year. So just any comments on file growth and the trajectory of it.

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. Sure, Steven. Thanks. Thanks for the question. Yeah. We're pleased with the customer file being flat for the quarter whether it was a headwind, but not as significant a headwind as was the shift in consumer purchase patterns. So, to be flat, we feel good about. I think what we're seeing is that people continue to come into the stores and onto the sites. Traffic is down slightly, but not anything significant. And what we're seeing instead is smaller purchases and that you can see that reflected in the average order value.

The bigger question – I think the question for the quarter is your second one on why do we feel confident in the – in maintaining our outlook. And framing up this way, we expected some return to a more normalized purchase

behavior once the supply chain issues were handled in the industry. And for sure, pool owners have said pandemic supply chain issues are over. They see that the stores have plenty of inventory, online has plenty of inventory from us and from our competitive set.

So, given that return, I think the best proxy to how we're thinking about our year and what gives us confidence in delivering it is to go back and look at 2019 last year pre-pandemic. It's public information in our S-1. And what you'll see there is a first half/second half split on sales, 25% to 75%. And you'll see our first half/second half split to EBITDA of minus [ph] 7% and 1.07% (28:17). And if you apply those splits to our first half results, you'll see that we're solidly in the range of our outlook.

Steve, I don't know if you want to add anything more to that explanation.

Steven M. Weddell

Chief Financial Officer & Treasurer, Leslie's, Inc.

A

Yeah, that's well said. I think more put a finer point on it. When you think about the shift that we saw in the second quarter last year was about 14.6% of the year. And you compare that to pre-pandemic, probably closer to 12% to 12.5%. So we look at it being about a 200-basis-point shift on \$1.6 billion rounded number for the year, that gets you about \$33 million. So those are purchases we expect to get. But as Mike said, that purchases are likely going to occur closer to the pool season. And what we've seen year-to-date is folks buying some of the smaller sizes as they buy to the need.

Steven Forbes

Analyst, Guggenheim Partners

Q

And then just a quick follow-up, Steve. The caveat on gross margin, right, you saw potential for some incremental pressure. Can you provide some additional context on what sort of pressure points that would be? It seems like it may be occupancy and merch margin, but any color on what you're trying to call out there.

Steven M. Weddell

Chief Financial Officer & Treasurer, Leslie's, Inc.

A

Sure. Thanks for the question. So fairly consistent with how we talked about the second half back in February. As we look – and I'll go through the four main components, we always talk about. Business mix, we expect that to continue to moderate as we get into the second half given the acquisitions become a much smaller part of the overall business in the second half. DC expense in the second half of last year was elevated due to the challenges we had in the New Jersey distribution center, and the vendor delivery cadence overall. This year, we brought in a lot of that inventory early and positioned it across the network. So you're not going to have the same cadence of spend from a distribution perspective.


Occupancy normalizes as well as we get into the back half of the year. Larger sales, improved comps will help that moderate. And then, the final piece is really around product rate. And this is the area that we kind of highlighted as potentially driving some of the exposure. Our expectation is that we'll continue to see some pressure related to the industry cost increases based on current retail pricing levels. Expectation is that we will see some retail price increases prior to season, but we've not seen it occur. And so, it's too early to update the formal guide given we're not to Memorial Day yet, we haven't kicked off season, but that's where we would see potential pressure in the back half of the year.

Steven Forbes

Analyst, Guggenheim Partners

Q

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Thank you.

Operator: Thank you. The next question comes from Simeon Gutman from Morgan Stanley. Please proceed with your question, Simeon.

Hannah M. Pittock

Analyst, Morgan Stanley & Co. LLC

Q

Hi. Thanks for taking the question. And this is Hannah Pittock on for Simeon. If you had to kind of quantify the relative impact of unfavorable weather versus a shift back to a more historically normal seasonal cadence, kind of independent of weather, how would you parse those out? And one of its primarily one or the other, how does that impact your expectations to recapture those sales? And if there's any historical context to this similar kind of weather push, should we think about that demand getting pushed into next quarter versus poor weather leading to some destruction of demand?

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. Thank you for the question, Hannah. The best way to look at it is on half, I would say. And for the half, weather impact, we use Planalytics as our weather service provider, calculated a 4% headwind due to weather for the half. And then in terms of the change in consumer purchase patterns, for the half, that's about an 8% headwind. And in our range of outcomes for the quarter, we had expected that return to normalize purchase behavior. We weren't sure if we'd get all of it in the quarter or not. Looks like it all moved, which is fine in our estimation, and that we do expect to recover in the second half.

The weather to date, we should also be able to recover from whether it is early season pushes out things like pool openings. And I think pool openings are probably a good example of what we're seeing in terms of a change in patterns from the consumer. Our pool openings in the first half were down 36% versus the prior year. But our pool opening schedule, and this is one of the few areas of the business where we actually have a forward order book, are plus 48% in the second half. So it's a good indicator that shift will recover, will be up in our pool opening business for the year. We feel quite confident about that.

In terms of the weather, if weather continues to be poor into the pool season, then we do run the risk of losing some pool days, if you will. But the best historical context for this, I'd say, would also be 2018, 2019, a somewhat similar dynamic, and we expect to recover most of that in the second half.

Hannah M. Pittock

Analyst, Morgan Stanley & Co. LLC

Q

Understood. That's helpful. And maybe as a quick follow-up, you mentioned some softness in those high ticket durables, which we're kind of seeing across a lot of sectors. Would you think that's being driven by consumer weakness, maybe high inflation, and that demand is maybe being pushed out? Or is this kind of a continued digestion of demand that was pulled forward during kind of peak pandemic time?


Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

A

Ground pools in the first half last year was plus 46%, which is outside of the seasonal norm. First half this year, we're down 11%. So didn't give all of it back, but gave some of it back. And what's driving the decrease is in half for a big ticket item like this. A good portion of our hot tubs, which have an average price point of over \$8,000, are actually financed. And with interest rates where they are, we have seen that be a headwind to the business.

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Hannah M. Pittock

Analyst, Morgan Stanley & Co. LLC

Understood. Thank you.

Q

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

Yes.

A

Operator: Thank you. The next question comes from Dana Telsey from Telsey Advisory Group. Please proceed with your question, Dana. Dana, you may proceed with your question. If your line is muted, please unmute your line so that we can hear your question. Unfortunately, we cannot hear anything from Dana's Line.

We now move on to the next question, which comes from Garik Shmois from Loop Capital Markets. Please proceed with your question, Garik.

Garik Shmois

Analyst, Loop Capital Markets LLC

Oh. Hi. Thanks for taking my question. Wanted to ask on the – some of the stronger markets that you cited, Texas and Florida. If I heard you correctly, those were not weather-impacted markets and you had double-digit comps there. I was wondering what was driving some of the growth in some of these stronger markets and if there's any leads that you could provide from the markets that would have been up to the overall maybe underlying health of the business.

Q

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

Yeah. Garik, great, great question. Like I said in our prepared remarks, we're very encouraged by what we saw in Texas and in Florida, where weather was what I would call normal. Those are significant markets for us and we saw sales in those markets given some of our M&A actually up in the low teens. On a comp basis, they were double-digit. And I think what it's telling us is and what we're seeing as the season progresses is where we get normalized weather, we're seeing nice reaction from our consumers and nice healthy growth.

A

Garik Shmois

Analyst, Loop Capital Markets LLC

Okay. Thanks for that. And a follow-up question is just I don't know if you could provide an update on how April has progressed and if there's any recent data points that could support your sales outlook.

Q


Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

Yeah, I would say April is responding like Florida and Texas did in the second quarter. Where there's been good weather, the results have been good. But to be clear, April weather, the first three weeks in particular, was not favorable. It got better in the last week, but we saw some turnarounds. California had been very challenged in – was down 21% in the first – excuse me, in the second quarter. We saw that turn around some in April, but then the weather in Texas got more challenging with the storms. So I think the conclusion that we're drawing is that weather has definitely been a headwind. But where we've had good weather, we have seen good results.

A

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Garik Shmois

Analyst, Loop Capital Markets LLC

Got it. Thanks for the help. Best of luck.

Q

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

Yeah.

A

Operator: Thank you. The next question comes from Jonathan Matuszewski from Jefferies. Please proceed with your question, Jonathan.

Jonathan Matuszewski

Analyst, Jefferies LLC

Hey. Good afternoon. Thanks for taking my questions. First one was on inventory just related to the end of quarter balance there. It sounds like PRO customers seem still resolute in believing trichlor prices will come down. Presumably they've been maybe relying more on safety stock until that happens. Do you have a sense of how much safety stock your PRO customers have to run through before they need to purchase in greater quantities? And I guess, similar question for the homeowner, although I presume safety stock is less of a relevant concept here. But just trying to get a sense of kind of – it sounds like this is going to be the peak for inventory and you're going to kind of focus on working down that inventory and convert to cash flow. So just trying to get some sense around that dynamic. Thanks.

Q

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

Yeah. Steve, why don't you take inventory, then I'll address the PRO trichlor situation?

A

Steven M. Weddell

Chief Financial Officer & Treasurer, Leslie's, Inc.

Sure. So, yeah, so inventory settled at \$492 million for the quarter, up \$147 million over last year. That's actually a smaller decline than we saw – sorry, smaller increase than we saw in the first quarter. And if you look at the sequencing of inventory increases in the back half of last year, we saw positive increases in inventory in both Q3 and Q4. Highly unusual. And if you go back in the years I've been here, we have never increased inventory in the back half of the year. Because of the supply chain challenges and the shortages, we accepted that inventory and began to build up for the season.

A

I feel very good with where we're at going into season if you look at the year-on-year change in Q2, primarily around chemicals. So, if we go back to last couple of quarters, a lot of the discussions we were having was around the increase in inventory related to equipment. So, at this point, going into season heaviest use from a chemical perspective, we feel very good with our current inventory balances. The top two contributors to inventory increase were still the chemical and equipment categories, which we've talked a lot about being nondiscretionary in nature. So, I feel good with where we're at. And as you stated, I absolutely believe that we're at peak and we have an opportunity to materially decrease our inventory levels in the year-end and beyond.

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

A

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And Jonathan, from the second part of your question, the cost structure for trichlor in 2023 is definitely up. There is, I would say, some probable carryover inventory from the prior year. Very hard for us to tell how much that would be. But I think that dynamically we see as with higher costs, we actually expect PRO trichlor pricing to go up as we get into season. The PROs themselves are expecting trichlor prices to go down. So we have a little bit of a stare off going I think in the industry there, and it'll work itself out as we get into season. But for right now, it is meeting results, I would say.

Jonathan Matuszewski

Analyst, Jefferies LLC

Q

Got you. That's helpful. And I guess just a quick follow-up on that last point. The midpoint of your guide assumes trichlor pricing down, I think around 12.5%. Looks like a 50-pound bucket of 3-inch tabs is still sitting around \$250 today, so not far off from all-time peak prices. So, I guess, should we anticipate a revision to guidance maybe going into next quarter just given expectations for trichlor deflation across all three scenarios?

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. The answer, Jonathan, is we're really not going to have great insight into pricing until we get into Memorial Day weekend. That's true of every season, I'd say particularly true of this season. However, year-to-date, we've seen very stable pricing in trichlor in the residential markets. And we haven't seen any reason for that not to continue. As I said, in the PRO markets, we would actually expect now trichlor to potentially go up some. It hasn't. So we'll have to wait to see how the season plays out. But right now, we're feeling very positive about the direction of trichlor pricing, both Residential and we believe PRO as we get into season.

Jonathan Matuszewski

Analyst, Jefferies LLC

Q

That's helpful. Best of luck.

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

A

Thank you.

Operator: Thank you. The next question comes from Kate McShane from Goldman Sachs. Please proceed with your question, Kate.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Q

Hi. Good afternoon. Thanks for taking our question. We wanted to ask a question around market share gains. I think you had mentioned in the prepared comments you had gained around 500 basis points of market share during the quarter. We wondered if you could help us understand what the assumption is in your guidance for market share gains, if you've seen any kind of acceleration? And is this a like-for-like comparison, meaning you're not incorporating M&A when accounting for the market share gain?


Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. Thanks, Kate. This is Mike. Thanks for the question. The – I'll answer the second part of the question first. We do count M&A as market share gains. And we've been consistent since the IPO that part of our growth

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strategy is and will be programmatic M&A, and we do see it as a way to gain market share. So it's included in the numbers. The – and just for a slight correction, the 500 basis points is sales outperformance versus the industry. Doesn't exactly correlate to market share gains, but it does definitely say that we are gaining share. So we look at it a little bit differently. And that's based on aggregate credit card data that we receive for the industry and specifically for specialty pool retailers. So I think that answers questions on how we look at it, sales versus – sales outperformance that leads to market share gains. And then also the inclusion of M&A. And in terms of our outlook, we don't intrinsically assume market share gains in our outlook. But clearly, our intent is to grow faster than the market each year.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Thank you.

Q

Operator: Thank you. The next question comes from Peter Keith from Piper Sandler. Please proceed with your question, Peter.

Peter Jacob Keith

Analyst, Piper Sandler & Co.

Hi. Thanks. Good afternoon, everyone. Wanted to ask about inflation. So obviously there's always a lot of focus on trichlor, but I guess I was curious around other pockets of your business, other areas of chemicals or equipment, if you're seeing inflation and maybe, Steve, it sounds like maybe you are and that's contributed to what could be gross margin pressure. So just wondering if you can frame up some of those other categories for us and what you're seeing with the pricing and the magnitude?

Q

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

Yeah. Peter, maybe I'll start on just overall inflation and we can talk about inflation on the cost side, which Steve mentioned around margins. We had put in our outlook about 5% inflation over the course of the year. We expect it to come out a little higher than that and moderate during the year. That's what we're seeing in the first half. We had inflation, I'd say, in the high single-digits. It's coming down. And we do expect our 5% inflation factor in our outlook to be – still be a reasonable assumption for the full year.

A

Steven M. Weddell

Chief Financial Officer & Treasurer, Leslie's, Inc.

Yeah. And so from a product category perspective, Peter, primarily it centers around chemicals this year. There were some, I think, more routine price increases on the equipment side, but the large increases from a product perspective were really around trichlor and cal-hypo. On the cost side, fairly consistent themes, seen increases from a labor perspective or payroll, I've seen increases from a marketing perspective as you think about digital marketing costs. And again, when we look at the last 12 months, and recall that most of the costs below the line, SG&A increases from an inflation perspective, really started in the third and fourth quarter. And so we're going up against in the first half year kind of lower compares. So while we saw some increased inflation in the second quarter on the SG&A side, would expect that to moderate as we get into the back half.

A

Peter Jacob Keith

Analyst, Piper Sandler & Co.

Q

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Okay. That's helpful. Then I wanted to pivot back to inflation – I'm sorry, not inflation, the other I word, inventory, a little bit on the heels of what Jonathan was asking. So supply chains normalized. You've maintained elevated inventory on risk of supply chains. So can you give us a sense of where you think inventory lands by year-end and maybe even longer term, is there a way to think about target inventory levels on like an inventory turn or inventory days basis?

Steven M. Weddell

Chief Financial Officer & Treasurer, Leslie's, Inc.

A

Yeah. A great question. And I'll take a shot at that. And then, Mike, you can add to it. When you think about where we're at from an inventory position today versus pre-pandemic, it's certainly elevated and very intentional. As we typically think about buying in the season, we typically would buy into early June. Enough supply, I should say, when we kick off season to get us through early June and then work on replenishment.

This year, we've effectively bought through June, into early July. We still have a substantial amount of replenishment required to get through the end of the year. So when we think about the \$492 million relative to, call it, \$900-plus million of cost of goods for the full year, we have plenty to go from a procurement perspective. But we have brought inventory in earlier. So we control our own destiny and we control the replenishment cycle, particularly early in the season, which is where we saw some challenges last year.

As we think about what our targets are going forward, we've just implemented a new inventory system as well as a merchandise financial planning system. And so, we expect to get significant dividends out of that investment, which will help with the procurement and purchasing, as well as the analytics at a category and SKU level, ultimately down to kind of our gross margin return on investment. So for today, what I'd tell you is that we see opportunity to get below, materially below where we finished last year. The cadence of purchases for inventory will look very different than it did last year. And I made the comment earlier that in the second half of last year, we increased inventory which is just not typical from a seasonal perspective in our business. So the team is reviewing on a weekly and monthly basis and very focused on recouping some of the investment that we've made now that we've – we're on the doorstep of season.

[indiscernible] (49:34)

Peter Jacob Keith

Analyst, Piper Sandler & Co.

Q

...thank you very much. Oh, go ahead.

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

A

No, Peter. I was going to say I didn't have anything to add. So thank you.

Peter Jacob Keith

Analyst, Piper Sandler & Co.

Q

Okay. Thank you both. Appreciate it.

Operator: Thank you. The next question comes from Andrew Carter from Stifel. Please proceed with your question, Andrew.

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Q

Hey, thanks. Just wanted to ask about the product margin. I know that it's early in the season, but if I'm not mistaken, product margin actually deteriorated from 1Q to 2Q. Was that mix-driven or a greater imbalance between price and inflation? And I know that you've stated trichlor has been steady, but the other side of it is there's a lot of inflation on other chemicals. I know your plans are to get pricing in that, but you're also very market by market. So are there a lot of markets out there where you're just not seeing the pricing and not taking it? Are there select? Anything you can help us with, with that kind of key point in your gross margin guidance for the year.

Steven M. Weddell*Chief Financial Officer & Treasurer, Leslie's, Inc.*

A

Sequentially, Q1 versus Q2, it does relate to increased product costs. We saw some product cost increases in late Q1, early part of Q2, and so that absolutely is having an impact on the quarter-over-quarter impact for the year or for the first half. We would expect that trend to continue as we get into Q3 and Q4 as well, which is why we've talked about some of the potential pressure in the back half of the year.

As you think about pricing across the country and as you talk about from a market-by-market perspective, that's generally more from a PRO perspective, from an overall company perspective on the Residential side, based on the omni-channel approach, we've got more consistent pricing. Pricing will deviate when we go on promotion, but it's typically more consistent across the country. We've been very proactive raising prices, testing into prices, but one of the comments we made back in November as well was that our expectation was that prices would increase. But if they don't, we've got the ability to compete and that's what we're doing. So taking a very tactical approach, as you say, market by market to ensure that we are not – we're price leaders on the way up, not on the way down, but making sure that we remain competitive in the markets in which we operate.

W. Andrew Carter*Analyst, Stifel Financial Corp.*

Q

[ph] Thanks (51:52), I'll pass it on.

Michael R. Egeck*Chief Executive Officer & Director, Leslie's, Inc.*

A

Yeah. Andrew just for a little more color on that.

W. Andrew Carter*Analyst, Stifel Financial Corp.*

Q

Yeah.

Michael R. Egeck*Chief Executive Officer & Director, Leslie's, Inc.*

A

Our chemical business in the first half was up 2%. And that was pretty evenly balanced between increases in price and decreases in volume. So we are getting some price, more specifically on the Residential side. And on the PRO side, as you pointed out, tends to be very localized pricing. We're being competitive. But as I said earlier, we do expect based on cost structures for pricing to get a little bit firmer as we get into the meat of the pool season.

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W. Andrew Carter

Analyst, Stifel Financial Corp.

Thank you, guys. I'll pass it on.

Q

Operator: Thank you. The next question comes from David Bellinger from MKM ROTH (sic) [ROTH MKM]. Please proceed with your question, David.

David Leonard Bellinger

Analyst, ROTH MKM

Thanks for the question. Going back to the full-year guidance. You mentioned the normalization back to pre-2020 levels, expectations for 75% of sales still left ahead of you this year. If that's the case, I mean, full-year revenues could be tracking towards the upper end of your guidance range. And I know that's a sensitive calculation to make and maybe oversimplifying things, but why could that be the case given the slower first half and just some of that weather comments for April? It seems like trends improved somewhat to date, but not a clear acceleration into Q3. Could you just help us square all that away and just what it means in terms of the guide for the balance of the year?

Q

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

Yeah. David. The first thing I'd like to clarify is I was quoting 2019. So the last of the pre-pandemic years, if you would, and the last year that was unlike the last three really impacted in terms of purchase timing due to supply chain challenges and product shortages. I mean, 2021 and 2022, consumers were very concerned about scarcity of product during pool season, as were we. And we, at one point last year in the first quarter, actually sent a letter to our loyalty file saying, well, we couldn't guarantee product availability in the second half, and encouraged them to purchase early prior to the poor season.

A

And whether on their own or because of that letter, we saw a lot of that. And that was that 210-basis-point to 260-basis-point increase in last year's Q2 in terms of the total year's contribution. So when we're thinking about this year, we really need to go back to 2019. Products readily available now and pool owners are buying to need. And that is historically, we have multi-multi-years, decades of a very similar contribution pattern on sales of 25/75. And as we've talked about before, last year was the first year in Q1 that the company had positive EBITDA. That's also not the norm. The first half historically has been a minus-7% range and the second half has been a plus-107%.

So as I said to the first question of this afternoon was that if you apply our first half results to those ratios for a normalized pre-pandemic year, yeah, that does give us quite a bit of confidence in our current outlook despite some of the challenges we're seeing early in the season with regard to weather.


David Leonard Bellinger

Analyst, ROTH MKM

[ph] Helpful (55:52) clarification. And I wanted to follow up on the smaller purchase size, the smaller AOVs. So what's missing in the basket now? Is it simply some of those splurging discretionary items you saw over the last couple of years or are you seeing some kind of pullback to the lower-priced items, maybe delaying some maintenance or buying closer to need like you've been talking about? Anything of that nature starting to play out as Q2 progressed?

Q

Leslie's, Inc. (LESL)
Q2 2023 Earnings Call

 **Corrected Transcript**
03-May-2023

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. I think the way to think about Q2 and AOV being down 8% is about half of it is the decrease we saw in the quarter which was about 30% in aboveground pools and hot tubs. Those carry an \$8,000-plus average selling price. So when those go down on that magnitude, it brings, it impacts the AOV for the entire assortment. That's about half of it. The other half of it is purchases of smaller sizes of chemicals. And a good example of that is trichlor. The penetration of 35-pound buckets of tabs versus 20-pound buckets of tabs has changed about 1,000 basis points over the last few years. And now we're seeing that back to the same type of contribution level that we saw, again, 2019.

Now, think about it last year, you're going into season. You know what you probably need for the full season. You're assuming there's going to be some shortages,. You're seeing shortages. So you're buying the bigger bucket. You're buying a 35-pound bucket or maybe even a 50-pound. And all you needed to buy at that time to need was a 20-pound, then you'd come in later in the year and get another 20-pounder. So it's that type of thinking and that type of purchase behavior that is driving that 200-plus-basis-point shift out of Q2 into Q3 and getting us back to that, again, the 2019 pre-pandemic, pre-product shortage, [ph] what I'm calling (58:03) normalized purchase cycle from the pool owner.

David Leonard Bellinger

Analyst, ROTH MKM

Q

[ph] Thanks for the detail. That's all (58:10).

Operator: Thank you very much. At this time, there are no further questions. I'd like to turn the call back to Mr. Mike Egeck for closing remarks. Thank you, sir.

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

Yes. Thank you, Claudia. And thank you all for joining us. We look forward to getting back in front of you in August. We can report on the pool season, which should be in full swing at that time. Thank you very much.

Operator: Thank you very much, sir. And ladies and gentlemen, that does conclude today's teleconference. Thank you very much for joining us. You may now disconnect your lines.

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Exhibit 8

July 13, 2023



Leslie's, Inc. Announces Preliminary Third Quarter Fiscal 2023 Financial Results and CFO Transition

- *Revises Fiscal 2023 outlook based on year-to-date performance and current trends*
- *Scott Bowman appointed Chief Financial Officer, effective August 7, 2023*

PHOENIX, July 13, 2023 (GLOBE NEWSWIRE) -- Leslie's, Inc. ("Leslie's" or the "Company"; NASDAQ: LESL), the largest and most trusted direct-to-consumer brand in the U.S. pool and spa care industry, today announced preliminary financial results for the third quarter of Fiscal 2023. The preliminary third quarter of Fiscal 2023 results are unaudited and subject to adjustment and finalization by the Company.

The Company expects preliminary sales for the third quarter of \$611 million including a comparable sales decline of (12)%. Gross profit is expected to be \$249 to \$251 million and gross margin is expected to be approximately 41%. Net income is expected to be \$70 to \$73 million, Adjusted EBITDA is expected to be \$124 to \$128 million, Adjusted net income is expected to be \$73 to \$76 million, and Adjusted diluted earnings per share are expected to be \$0.39 to \$0.41.

In light of these results and the expectation that trends experienced in the third quarter will persist through the fiscal fourth quarter, the Company is revising its Fiscal 2023 outlook. Net sales are now expected to be \$1,430 to \$1,450 million, gross profit is expected to be \$549 to \$559 million, net income is expected to be \$33 to \$40 million, Adjusted EBITDA is expected to be \$170 to \$180 million, Adjusted net income is expected to be \$52 to \$59 million, and Adjusted diluted earnings per share are expected to be \$0.28 to \$0.32.

Mike Egeck, Chief Executive Officer, commented, "Our fiscal third quarter results were well below our expectations as low double digit traffic declines in our Residential and Pro businesses drove negative comps across both discretionary and non-discretionary categories. While abnormal weather continued to pressure traffic levels, customer surveys conducted towards the end of the quarter also indicated increased price sensitivity and that consumers entered the pool season with a greater than normal amount of chemicals leftover from last year."

Mr. Egeck continued, "Our third quarter gross margins were down year-over-year due to higher product costs that we could not pass through to consumers, the impact of higher distribution-related expenses and capitalized costs as we reduce inventory from peak levels, and fixed cost deleverage. While our team navigates these dynamics, we also continue to focus on the levers in our control – delivering exceptional customer service, bringing innovative and energy-saving products to market, and managing costs. We also continue to aggressively manage our inventory balances and rigorously review our costs to further

optimize our non-store headcount. While this year's pool season has presented a unique confluence of challenges, we remain focused on driving long-term market share gains and shareholder value."

Chief Financial Officer Transition

Leslie's also announced today that Scott Bowman has been appointed Chief Financial Officer, effective August 7, 2023. Mr. Bowman will join the company on July 17, 2023 and serve as Chief Financial Officer Designate through August 6, 2023. Steve Weddell, who is stepping down as CFO effective August 7, 2023, will remain an advisor to the Company through December 31, 2023 to facilitate the transition.

Mr. Egeck commented, "I am very pleased to welcome Scott to our leadership team. Scott is a seasoned public company CFO who brings over thirty years of finance and accounting experience, as well as experience in areas including supply chain, manufacturing, M&A, and corporate strategy. Scott has built deep expertise developing and executing operating plans as well as enhancing financial processes and developing talent across the organizations he has served. He will be a strong addition to the Leslie's team and I look forward to working with him closely to drive the business forward."

Mr. Bowman is a veteran public and private company CFO with extensive experience at retail, manufacturing, and CPG companies. He most recently served as CFO for True Food Kitchen after serving as CFO for Dave & Buster's (NASDAQ: PLAY) from 2019 to 2021 and Hibbett Sports (NASDAQ: HIBB) from 2012 to 2019. Mr. Bowman previously served as a Divisional CFO at The Home Depot, and held prior leadership positions in various corporate finance roles having started his career in the audit department of The Sherwin-Williams Company. Mr. Bowman is a CPA and holds an MBA from Emory Goizueta Business School and a B.S. in Accounting and Finance from Miami University (Ohio).

Scott Bowman said, "I admire Leslie's and the impressive leadership position the company has built over its long history in the pool and spa care industry. I look forward to joining Mike and the rest of the team in executing on our strategic growth priorities, enhancing operational efficiencies and driving value for our shareholders."

Mr. Egeck added, "I want to thank Steve for his leadership and contributions to Leslie's over the past eight years. Steve was instrumental in leading our IPO process and has been a trusted partner as we transitioned to a public company. I am grateful that he will remain as an advisor through this transition and wish him all the best in his next chapter."

Third Quarter Fiscal 2023 Earnings Results and Conference Call

The Company will release its full financial results for the third quarter of fiscal 2023 after market close on Wednesday, August 2, 2023. The Company will host a conference call at 4:30 p.m. Eastern time to discuss its final results and revised outlook in more detail. Investors and analysts interested in participating in the call are invited to dial 877-407-0784 (international callers please dial 1-201-689-8560) approximately 10 minutes prior to the start of the call. A live audio webcast of the conference call will be available online at <https://ir.lesliespool.com>.

A recorded replay of the conference call will be available within approximately three hours of

the conclusion of the call and can be accessed, along with the associated slides, online at <https://ir.lesliespool.com> for 90 days.

About Leslie's

Founded in 1963, Leslie's is the largest and most trusted direct-to-consumer brand in the U.S. pool and spa care industry. The Company serves the aftermarket needs of residential and professional consumers with an extensive and largely exclusive assortment of essential pool and spa care products. The Company operates an integrated ecosystem of over 1,000 physical locations and a robust digital platform, enabling consumers to engage with Leslie's whenever, wherever, and however they prefer to shop. Its dedicated team of associates, pool and spa care experts, and experienced service technicians are passionate about empowering Leslie's consumers with the knowledge, products, and solutions necessary to confidently maintain and enjoy their pools and spas.

Use of Non-GAAP Financial Measures and Other Operating Measures

In addition to reporting financial results in accordance with accounting principles generally accepted in the United States ("GAAP"), we use certain non-GAAP financial measures and other operating measures, including comparable sales growth and Adjusted EBITDA, Adjusted net income (loss), and Adjusted earnings per share, to evaluate the effectiveness of our business strategies, to make budgeting decisions, and to compare our performance against that of other peer companies using similar measures. These non-GAAP financial measures and other operating measures should not be considered in isolation or as substitutes for our results as reported under GAAP. In addition, these non-GAAP financial measures and other operating measures are not calculated in the same manner by all companies, and accordingly, are not necessarily comparable to similarly titled measures of other companies and may not be appropriate measures for performance relative to other companies.

Comparable Sales Growth

We measure comparable sales growth as the increase or decrease in sales recorded by the comparable base in any reporting period, compared to sales recorded by the comparable base in the prior reporting period. The comparable base includes sales through our locations and through our e-commerce websites and third-party marketplaces. Comparable sales growth is a key measure used by management and our board of directors to assess our financial performance.

Adjusted EBITDA

Adjusted EBITDA is defined as earnings before interest (including amortization of debt issuance costs), taxes, depreciation and amortization, management fees, equity-based compensation expense, loss on debt extinguishment, costs related to equity offerings, strategic project costs, executive transition costs, severance, losses (gains) on asset dispositions, merger and acquisition costs, and other non-recurring, non-cash or discrete items. Adjusted EBITDA is a key measure used by management and our board of directors to assess our financial performance. Adjusted EBITDA is also frequently used by analysts, investors, and other interested parties to evaluate companies in our industry, when considered alongside other GAAP measures. We use Adjusted EBITDA to supplement

GAAP measures of performance to evaluate the effectiveness of our business strategies, to make budgeting decisions, and to compare our performance against that of other companies using similar measures.

Adjusted EBITDA is not a recognized measure of financial performance under GAAP but is used by some investors to determine a company's ability to service or incur indebtedness. Adjusted EBITDA is not calculated in the same manner by all companies, and accordingly, is not necessarily comparable to similarly titled measures of other companies and may not be an appropriate measure for performance relative to other companies. Adjusted EBITDA should not be construed as an indicator of a company's operating performance in isolation from, or as a substitute for, net income (loss), cash flows from operations or cash flow data, all of which are prepared in accordance with GAAP. We have presented Adjusted EBITDA solely as supplemental disclosure because we believe it allows for a more complete analysis of results of operations. Adjusted EBITDA is not intended to represent, and should not be considered more meaningful than, or as an alternative to, measures of operating performance as determined in accordance with GAAP. In the future, we may incur expenses or charges such as those added back to calculate Adjusted EBITDA. Our presentation of Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by these items.

Adjusted Net Income (Loss) and Adjusted Earnings per Share

Adjusted net income (loss) and Adjusted earnings per share are additional key measures used by management and our board of directors to assess our financial performance. Adjusted net income (loss) and Adjusted earnings per share are also frequently used by analysts, investors, and other interested parties to evaluate companies in our industry, when considered alongside other GAAP measures.

Adjusted net income (loss) is defined as net income (loss) adjusted to exclude management fees, equity-based compensation expense, loss on debt extinguishment, costs related to equity offerings, strategic project costs, executive transition costs, severance, losses (gains) on asset dispositions, merger and acquisition costs, and other non-recurring, non-cash, or discrete items. Adjusted diluted earnings per share is defined as Adjusted net income (loss) divided by the diluted weighted average number of common shares outstanding.

Note: A reconciliation of non-GAAP guidance measures to corresponding GAAP measures is not available on a forward-looking basis without unreasonable effort due to the uncertainty of expenses that may be incurred in the future, although it is important to note that these factors could be material to our results computed in accordance with GAAP.

Forward-Looking Statements

This press release contains forward-looking statements about us and our industry that involve substantial risks and uncertainties. All statements other than statements of historical fact contained in this press release, including statements regarding our future results of operations or financial condition, business strategy, and plans and objectives of management for future operations, are forward-looking statements. In some cases, you can identify forward-looking statements because they contain words such as "anticipate," "believe," "contemplate," "continue," "could," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "project," "should," "target," "will," or "would," or the negative of these

words or other similar terms or expressions. Our actual results or outcomes could differ materially from those indicated in these forward-looking statements for a variety of reasons, including, among others:

- our ability to execute on our growth strategies;
- supply disruptions;
- our ability to maintain favorable relationships with suppliers and manufacturers;
- competition from mass merchants and specialty retailers;
- impacts on our business from the sensitivity of our business to weather conditions, changes in the economy (including rising interest rates, recession fears, and inflationary pressures), geopolitical events or conflicts, and the housing market;
- disruptions in the operations of our distribution centers;
- our ability to implement technology initiatives that deliver the anticipated benefits, without disrupting our operations;
- our ability to attract and retain senior management and other qualified personnel;
- regulatory changes and development affecting our current and future products;
- our ability to obtain additional capital to finance operations;
- commodity price inflation and deflation;
- impacts on our business from epidemics, pandemics, or natural disasters;
- impacts on our business from cyber incidents and other security threats or disruptions;
- our ability to remediate the material weakness in our internal control over financial reporting or additional material weaknesses or other deficiencies in the future or to maintain effective disclosure controls and procedures and internal control over financial reporting; and
- other risks and uncertainties, including those listed in the section titled “Risk Factors” in our filings with the United States Securities and Exchange Commission (“SEC”).

You should not rely on forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this press release primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, and operating results. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties, and other factors described above and in our filings with the SEC. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this press release. The results, events, and circumstances reflected in the forward-looking statements may not be achieved or occur, and actual results or outcomes could differ materially from those described in the forward-looking statements.

In addition, statements that “we believe” and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based on information available to us as of the date of this press release, and while we believe that information provides a reasonable basis for these statements, that information may be limited or incomplete. Our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all relevant information. These statements are inherently uncertain, and investors are cautioned not to unduly rely on these statements.

The forward-looking statements made in this press release are based on events or circumstances as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in this press release to reflect events or circumstances after the date of this press release or to reflect new information or the occurrence of unanticipated events, except as required by law. We may not actually achieve the plans, intentions, or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures, or investments. Additionally, our expectations regarding the third quarter fiscal 2023 results are based on preliminary financial information about the third quarter and are subject to adjustment. Although the third quarter is now completed, we are still in the process of our standard financial reporting closing procedures.

GAAP to Non-GAAP Reconciliation of Preliminary Results
(Amounts in millions, except per share amounts)
(unaudited)

		Three Months Ended July 1, 2023	
		Low	High
Net income	\$	70	\$ 73
Interest expense		18	18
Income tax benefit		23	24
Depreciation and amortization expense ⁽¹⁾		8	8
Equity-based compensation expense ⁽²⁾		3	3
Strategic project costs ⁽³⁾		1	1
Executive transition costs and other ⁽⁴⁾		1	1
Adjusted EBITDA	\$	124	\$ 128

		Three Months Ended July 1, 2023	
		Low	High
Net income	\$	70	\$ 73
Equity-based compensation expense ⁽²⁾		3	3
Strategic project costs ⁽³⁾		1	1
Executive transition costs and other ⁽⁴⁾		1	1
Tax effects of these adjustments ⁽⁵⁾		(2)	(2)
Adjusted net income	\$	73	\$ 76

Diluted earnings per share	\$	0.37	\$ 0.39
Adjusted diluted earnings per share	\$	0.39	\$ 0.41
Weighted average shares outstanding			
Diluted		185	185

(1) Includes depreciation related to our distribution centers and locations, which is reported in cost of merchandise and services sold in our condensed consolidated statements of operations.

(2) Represents charges related to equity-based compensation and the related Company payroll tax expense, which are reported in SG&A in our condensed consolidated statements of operations.

(3) Represents non-recurring costs, such as third-party consulting costs, which are not part of our ongoing operations and are incurred to execute differentiated, strategic projects, and are reported in SG&A in our condensed consolidated statements of operations.

(4) Includes executive transition costs, severance associated with corporate restructuring, losses (gains) on asset dispositions, merger and acquisition costs, and other non-recurring, non-cash, or discrete items as determined by management. Amounts are reported in SG&A in our condensed consolidated statements of operations.

(5) Represents the tax effect of the total adjustments based on our actual statutory tax rate. Amounts are reported in income tax expense in our condensed consolidated statements of operations.

Contact

Investors

Farah Soi/Caitlin Churchill

ICR

investorrelations@lesl.com

Media

FGS Global

Leslies@fgsglobal.com



Source: Leslie's Inc.


Exhibit 9

02-Aug-2023

Leslie's, Inc. (LESL)

Q3 2023 Earnings Call

Leslie's, Inc. (LESL)
Q3 2023 Earnings Call

 Corrected Transcript
02-Aug-2023

CORPORATE PARTICIPANTS

Caitlin Churchill
Managing Director, ICR

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

Scott J. Bowman
Chief Financial Officer Designate, Leslie's, Inc.

Steven M. Weddell
Chief Financial Officer, Treasurer & Executive Vice President, Leslie's, Inc.

OTHER PARTICIPANTS

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Steven Forbes
Analyst, Guggenheim Securities LLC

Ryan Merkel
Analyst, William Blair & Co. LLC

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC

Elizabeth L. Suzuki
Analyst, BofA Securities, Inc.

Garik Shmois
Analyst, Loop Capital Markets LLC

Jonathan Matuszewski
Analyst, Jefferies LLC

W. Andrew Carter
Analyst, Stifel, Nicolaus & Co., Inc.

Justin E. Kleber
Analyst, Robert W. Baird & Co., Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon and welcome to the Third Quarter of Fiscal 2023 Conference Call for Leslie's, Inc. At this time, all participants are in a listen-only mode. Following the prepared remarks, management will conduct a question-and-answer session. [Operator Instructions] As a reminder, this conference call is being recorded and will be available for replay later today on the company's website.

I will now turn the call over to Caitlin Churchill, Investor Relations. Please go ahead.

Caitlin Churchill

Managing Director, ICR

Thank you and good afternoon. I would like to remind everyone that comments made today may include forward-looking statements, which are subject to significant risks and uncertainties that could cause the company's actual results to differ materially from management's current expectations. These statements speak as of today and will not be updated in the future if circumstances change. Please review the cautionary statements and risk factors contained in the company's earnings press release and recent filings with the SEC.

During the call today, management may refer to certain non-GAAP financial measures. A reconciliation between the GAAP and non-GAAP financial measures can be found in the company's earnings press release, which was furnished to the SEC today and posted to the Investor Relations section of Leslie's website at ir.lesliespool.com.

On the call today from Leslie's are Mike Egeck, Chief Executive Officer; Steve Weddell, Chief Financial Officer; and Scott Bowman, Chief Financial Officer Designate.

With that, I will turn the call over to Mike. Mike?

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

Thanks, Caitlin, and good afternoon, everyone. Thank you for joining us. Please note that we have posted a Q3 2023 earnings deck to the Leslie's IR site and that we will be referring to certain pages in that deck during our call.

As we shared in our pre-release three weeks ago, it was a difficult quarter. Low-double digit traffic declines resulted in a 12% comparable sales decline and a 9% total sales decline. In addition to fixed cost deleverage associated with these sales, we faced unexpected indices and product cost increases and higher distribution expenses that significantly impacted gross margins for the quarter.

Our ongoing analysis points to three primary drivers in our Q3 traffic and sales results. The first is weather. Our weather reporting service, Planalytics, calculated that weather was a 5% year-over-year headwind to sales in the quarter. Weather headwinds rappedelled across most of our store base, and most significantly, in California, Texas and Arizona. The weather in Florida was relatively normal in the quarter, as it has been all year, and our business in Florida significantly outperformed in the quarter and year-to-date. Sales in Florida were plus high-single digits in the quarter and are plus mid-teens year-to-date.

The second driver was increased consumer price sensitivity. After three years of significant price inflation, consumers were not willing to absorb price increases during the quarter. This prevented us from taking the pricing

actions required to maintain margins as product costs increased and also prevented us from maintaining our pre-June 1 pricing on core chemicals. As we have discussed before, we generally aim to maintain a relative price point that is above mass and just below specialty. That relative price position was out of balance for some weeks in the third quarter, which we addressed with our June 1 price actions. Those actions resulted in essentially flat year-over-year chemical pricing despite higher costs.

And the third driver was that a portion of our customers had a greater than normal amount of chemicals left over from last year. This driver was validated by two separate consumer surveys, one conducted on our behalf, and another that was conducted on behalf of one of our chemical partners. This consumer behavior is not something we have seen before and was surprising given the hazardous nature and [ph] use to life (04:14) of these chemicals.

Transactions were down 12% in the quarter, reflecting double-digit traffic declines that offset solid conversion rates. Average order value increased 3%. The traffic decline was broad-based and impacted both non-discretionary and discretionary product sales. For the quarter, non-discretionary sales were down 6% and discretionary sales were down 24%. [ph] PRO Pool (04:44) chemical sales for the quarter were down 6%, as increases in cal-hypo and select specialty chemicals, partially offset a 16% decrease in trichlor sales.

Equipment sales were down 8% in the quarter, driven primarily by volume. The decrease in discretionary product sales was driven by hot tubs and above-ground pools, as macro factors continue to impact demand for these highly discretionary, high-ticket items. Non-comp sales contribute plus 3% to the quarter, driven by acquisitions and new store builds.

The data we analyzed suggests that the topline trends we are seeing are an industry-wide issue. Aggregated credit card data for the pool supplies retail category on slide 7 indicates that the industry sales, ex-Leslie's, were down 7.1% for the quarter. Based on total company sales, our declines were 220 basis points more than the category for Q3. That said, aggregated credit card data for the pool supplies retail category does not include hot tubs or marketplaces. And when we adjust out those two categories from our sales for a more comparable review, Leslie's performed slightly better than the industry.

We are clearly experiencing a highly unusual cool season, following three years of strong growth. However, the long-term fundamental advantages of the pool industry remain the same. New pools continue to be built and the growing installed base of pools need to be maintained. As you can see on slide 8, the industry has a long track record of consistent growth and Leslie's has consistently grown faster than the industry. We remain the leading direct-to-consumer pool and spa retailer with scale, capabilities and brand awareness that our competitors do not have. So while our team navigates the current industry headwinds, we also remain focused on executing the key strategic initiatives that underpin our competitive advantages and that we'll continue to drive our long-term success as industry conditions normalize.

Turning to our strategic growth initiatives. First, given the traffic challenges in the quarter, our customer file was down 8% versus the prior year's quarter. Second, average revenue per customer was down 1% in the quarter, driven primarily by decreases in big ticket items, specifically hot tubs and above-ground pools. Our Pool Perks loyalty members continue to outperform. Loyalty member sales were down 3% in the quarter.

With regard to our PRO initiatives, we ended the quarter with more than 3,700 PRO contracts in place and completed the conversion of 15 residential stores to our PRO format prior to the start of the season. We currently operate 98 PRO locations. PRO consumer group sales declined 3% in the quarter, with comp sales down 13%, as our PRO comps were impacted by the same factors as our overall business. In addition, trichlor pricing has

been more pressured on the PRO side as compared to the residential channel and contributed an outsized headwind to our overall gross margin performance. Our guidance for the remainder of the year assumes no change from current pricing levels.

M&A and new store growth remained an important initiative for Leslie's, though we will be prudent with the pace of this initiative in the near term, as we balance it against our other capital allocation priorities. M&A and new stores drove \$16 million in non-comp sales in the quarter. We also completed two acquisitions in the quarter that added five locations in the Sunbelt. Year-to-date, we have [ph] closed (08:34) 5 acquisitions that added 12 locations, and we have another acquisition under LOI. In the quarter, we opened 7 new stores, bringing the year-to-date total to 12. We remain confident in the total store expansion opportunity available to Leslie's over the long term and have identified over 800 opportunities for store densification. We will continue to address each of these opportunities with a buy or build analysis.

For AccuBlue Home, we were pleased to launch the program in May and have been very pleased with the consumer response and demand we have seen to date, all despite nominal marketing. While demand has been strong, we are facing supply chain constraints as we ramp up, and we are working with our vendor to increase production in order to meet consumer demand.

With regards to our outlook, our guidance for Q4 assumes no improvement to the top line trends we experienced in Q3. For gross margin, we expect Q4 to have a full quarter impact from the chemical price actions we took on June 1, which will be partially offset by the wind down of distribution costs associated with our peak inventory levels. We have also aggressively initiated cost management actions that, coupled with some unique SG&A comparisons, should result in Q4 SG&A being approximately \$15 million to \$20 million lower versus the prior year quarter.

In summary, we continue to have confidence in the long-term outlook for the industry, and we remain focused on prudently executing our strategic initiatives to capture the opportunities in front of us and further our industry leadership. At the same time, we are focused on taking immediate actions to improve our performance.

Let me reiterate the actions we are taking. Number one, we have adjusted pricing to reflect current marketing conditions and are now at our relative historical price position, which is slightly above mass and home improvement and at or slightly below specialty retailers. Number two, we are aggressively managing inventory through [ph] seat (10:44) reductions. Number three, we are focused on cost management throughout the P&L, including being disciplined on our marketing investments, utilizing strict ROI criteria. Number four, we continue to evaluate, develop and elevate our processes and people. And number five, we are enhancing our consumer insight efforts to further improve our understanding of evolving consumer behavior.

Before Steve discusses our results and outlook, I want to acknowledge our CFO transition. I'm very pleased to welcome Scott Bowman as our new CFO, effective August 7. Scott's depth and breadth of public company experience spans both financial and operational areas, and will be a huge asset as we return the business to growth. I would also like to thank Steve for his leadership and partnership, as well as his commitment to ensuring a smooth transition.

I'll turn it over to Scott to say a few words.

Scott J. Bowman

Chief Financial Officer Designate, Leslie's, Inc.

Thank you, Mike. Leslie's has carved out an admirable leadership position in an attractive industry. And based on my initial observations, I see plenty of areas where I can leverage my experience to help drive Leslie's strategic priorities. As I continue getting up to speed on the business, I look forward to digging into areas such as supply chain, product margin management, forecasting and capital allocation to help deliver continuous improvement in the business. It's an exciting time to join the team as we drive the next chapter of the company's growth, and I look forward to speaking with all of you in the coming weeks and months.

Now, we'll turn it over to Steve to share more detail on the Q3 financial results and outlook.

Steven M. Weddell

Chief Financial Officer, Treasurer & Executive Vice President, Leslie's, Inc.

Good afternoon, everyone, and thank you, Mike and Scott. I know I'm leaving the team in good hands, and I look forward to ensuring a smooth transition over the next few months. As Mike noted, it was a challenging quarter. While we have seen slow starts to pool season in prior years due to unfavorable weather conditions, historically, performance has improved around Memorial Day. This year, our third quarter performance was impacted by industry-wide headwinds, due in part to continued unfavorable weather, along with atypical consumer purchasing behavior.

For the third quarter, we reported sales of \$611 million, a decrease of 9% or \$63 million when compared to the third quarter of fiscal 2022. Our comparable sales decreased 12% or \$79 million.

Our comparable sales on a two-year stack basis decreased 4% and on a three-year stack basis grew 15%. Our non-comparable sales totaled \$16 million in the third quarter of fiscal 2023, which was driven by nine completed acquisitions that added 25 stores, as well as 19 net new store openings since the end of the second quarter of fiscal 2022.

With respect to trends by consumer group, comparable sales declined 10% for Residential Pool, 13% for PRO Pool, and 23% for Residential Hot Tub. On a two-year stacked basis, comparable sales declined to 5% for Residential Pool, increased to 4% for PRO Pool and declined to 7% for Residential Hot Tub. While our third quarter sales declines were unprecedented, they were in line with industry trends. Gross profit decreased 17% or \$52 million compared to the third quarter of fiscal 2022, and gross margin rate was down 390 basis points to 41.2% from 45.1% in the prior-year period.

Page 11 of our supplemental deck illustrates our third quarter gross margin rate bridge in more detail. During the quarter, gross margins were impacted by four primary factors. First, incremental distribution expenses, including those related to capitalized distribution costs and investments in labor, offsite storage and transportation costs lowered gross margin by 150 basis points. Approximately 50 basis points of this rate decline was due to deleverage of fixed distribution costs from lower comparable sales.

Regarding higher capitalized costs, as we built up inventory in prior periods, we capitalized more distribution costs, and during this quarter, we recognized some of those costs as we sold through the inventory. We have also continued to invest in our distribution network to ensure it operated smoothly at significantly higher capacities with improved service levels to support better in-stock positions across our businesses. We expect the gross margin headwind from distribution expenses to be smaller in the fourth quarter.

Second, higher product costs had a 140-basis point impact on gross margins in the quarter. While we experienced higher product costs across categories, the largest impact was in our chemicals categories. We initially increased our selling prices for chemicals at the start of the season, but we were unable to successfully

maintain those higher pricing levels. And as Mike discussed, we reduced prices on June 1. We expect greater product margin rate pressure in the fourth quarter as we experience the full quarter impact of those price changes.

Third, occupancy and other costs deleveraged by 70 basis points, predominantly due to the decline in comparable sales. We expect continued rate pressure in the fourth quarter related to occupancy and other costs deleverage given our comparable sales expectations.

And finally, business mix impacted gross margins by 30 basis points, primarily due to M&A completed during the last 12 months. We expect a smaller impact on rate from business mix in the fourth quarter.

Looking at the numbers in a different way, deleverage of fixed costs impacted gross margin rate by 115 basis points in the quarter, with the remaining 275 basis points of margin compression due to lower product margin, higher distribution costs and business mix.

Now we'll turn to SG&A. SG&A increased 3% or \$4 million compared to the third quarter of fiscal 2022. We continue to focus on managing costs in the business, generating cost savings, and driving ongoing organizational optimization. During the quarter, we were able to partially offset higher SG&A from acquired businesses and new stores, investments in our associates, in [ph] non-recurring (17:01) costs with \$6 million of like-for-like expense reductions compared to last year. We have taken additional actions to reduce our SG&A in the fourth quarter and into fiscal 2024.

Adjusted EBITDA was \$129 million compared to \$183 million in the prior year. Interest expense increased to \$18 million during the quarter from \$7 million in the prior year. And our effective tax rate increased to 26.1% compared to 25.7% in the prior year. Adjusted net income was \$76 million in the third quarter of fiscal 2023, compared to adjusted net income of \$126 million in the prior year. And adjusted diluted earnings per share was \$0.41 in the third quarter of fiscal 2023, compared to \$0.68 in the prior year. Diluted weighted average shares outstanding were 185 million in both the third quarter of fiscal 2023 and fiscal 2022.

Now we'll turn to year-to-date results. Total sales for the first nine months of fiscal 2023 decreased \$68 million or 6% to \$1.019 billion from \$1.087 billion in the prior year. Our comparable sales decreased 11% or \$118 million. On a two and three-year stack basis, our comparable sales were flat and up 23% respectively. Gross profit for the first nine months of fiscal 2023 decreased 15% or \$69 million to \$388 million from \$457 million in the prior year. Gross margin rate decreased by 390 basis points to 38.1% from 42.0% in the prior year, of which 140 basis points was due to negative comparable sales growth in the first nine months of fiscal 2023.

Adjusted EBITDA was \$109 million in the first nine months of fiscal 2023, compared to \$193 million in the prior year. Interest expense increased to \$48 million during the first nine months of fiscal 2023, from \$21 million in the prior year. Adjusted net income was \$25 million in the first nine months of fiscal 2023, compared to \$112 million in the prior year. And adjusted diluted earnings per share was \$0.14 in the first nine months of fiscal 2023, compared to \$0.60 in the prior year.

Moving to the balance sheet. We finished the third quarter of fiscal 2023 with cash of \$19 million, and we had \$31 million outstanding on our ABL. This compares to cash of \$193 million and no amounts outstanding on our ABL at the end of the third quarter of fiscal 2022. The reduction in net cash was primarily due to investments in inventory and higher M&A activity during the past 12 months. Currently, we do not have any amount outstanding on our ABL and we have availability of approximately \$240 million.

We ended the third quarter of fiscal 2023 with \$437 million of inventory, an increase of \$75 million compared to the third quarter of fiscal 2022, and a sequential decrease of \$56 million compared to the second quarter of fiscal 2023. The increase in inventory compared to the prior-year period was primarily related to core sanitizers. Consistent with our commentary last quarter, inventory levels have peaked and we continue to look for opportunities to further reduce our inventory.

During the third quarter and so far in the fourth quarter, we have and we will continue to aggressively manage purchase orders and receipts. We expect to end fiscal 2023 with less inventory than we had at the end of fiscal 2022. At the end of the third quarter of fiscal 2023, we had \$792 million outstanding on our secured term loan facility compared to \$800 million at the end of the prior-year period. The applicable rate on our term loan increased [ph] the LIBOR (21:03) plus 275 basis points in the third quarter, and our effective interest rate was 7.6% compared to an effective interest rate of 3.0% in the prior year.

In June 2023, we amended our term loan credit agreement to replace the existing LIBOR-based rate with a term SOFR-based rate as an interest rate benchmark. Other material terms of the facility remain substantially unchanged, including the maturity date of March 2028. Our ABL and term loan agreements do not have quarterly financial maintenance covenants.

Our outlook remains unchanged from the revised outlook we shared on July 13, the details of which are in today's earnings press release. As we only have one more quarter left in the fiscal year, I will be discussing each metric in the context of our implied fourth quarter outlook. Our fourth quarter outlook assumes a sales decline in the range of 9% to 14%, with comparable sales declines of 12% to 16%. Our outlook also assumes a gross margin range of 39.1% to 39.7%, compared to 45.7% in the prior-year period. In the fourth quarter, we expect additional rate pressure from product costs, continued impact from occupancy cost deleverage, but a lower impact from distribution costs and business mix compared to what we experienced in the third quarter.

We expect fourth quarter adjusted EBITDA to be in the \$61 million to \$71 million range and adjusted diluted earnings per share to be in the \$0.14 to \$0.18 range. Our outlook for the fourth quarter includes interest expense of \$17 million and our diluted weighted average shares outstanding does not assume any incremental share repurchases.


On capital allocation, our prioritization has not changed. Our first priority is and has been our capital structure, and we are targeting a leverage ratio of approximately 3 turns.

Our second priority is to invest in growth, both organically and through M&A. In the first nine months of fiscal 2023, we invested \$27 million in capital expenditures and we deployed \$16 million towards acquisitions. Mike noted, we will continue to be prudent in our pursuit of M&A opportunities. Our focus remains on acquiring pool supply retailers in the Sunbelt, and we will be disciplined around acquiring high-quality businesses at attractive purchase multiples.

Our final priority is to return excess cash to shareholders. While we do not expect to repurchase shares in the near-term under our existing authorization as we focus on our other priorities, we will continue to evaluate opportunities to repurchase shares based on available investment opportunities, our financial position, and market conditions.

And with that, I will hand it over to Mike. Thank you.

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Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

Thank you, Steve. Despite the challenging headwinds we are navigating in this highly unusual pool season, the aftermarket pool and spa industry has proven over time to be one of the most durable and advantaged consumer products categories, and we have a long track record of profitable growth in the industry. We remain laser-focused on the execution of our long-term growth initiatives, market share gains, and shareholder returns.

With that, I'll hand it back to the operator for Q&A.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] And our first question comes from Simeon Gutman with Morgan Stanley. Please go ahead.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Q

Good afternoon, everyone. My first question, Mike, you mentioned some market share from credit card data. Thanks for that. We don't see that data. So you adjusted your price. You [ph] said price is (25:23) June 1. So my first question related to that is, your product costs are much higher. You try – you've taken price down because you weren't getting the sell-through. Does that mean that a lot of the industry is just accepting a much lower margin for selling product or chemicals? And then related to it is if you were a holding or growing share even in that scenario, which maybe you can parse out, then why even take down the price?

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. Simeon, thanks for the questions, and good questions. First on the margins, as we're active in M&A with specialty retailers, we do see that we operate at higher margins than they do. And we can back that in pretty specifically to product cost, and feel comfortable that we still have a cost advantage versus specialty retail. Though we do need to say that that gap has narrowed from 2021 and 2022 when we had some, I would say, extraordinary advantaged prices on some core chemicals.

With regards to market share, we look at market share in a couple ways. The aggregated credit card data we use is Bank of America. As you can see on the slide, that shows we were basically flat to the industry in the quarter. We also listen very carefully to our pool peers and the largest distributor in the industry showed a sell-in to their pool specialty retail at minus 11%. So [ph] also a (26:57) flat comparison to, I would say, a flat growth rate and flat market share based on that comparison. Now, look, that's a deceleration from the market share gains we've had consistently for the last eight quarters, so we're not pleased with that. But that's the situation we are in with fourth quarter.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Q

And then quick follow-up on margin. Pre-COVID, we had a couple of years of, I guess, pre-COVID history. It looks like our model [ph] shows a (27:29) 13% EBIT margin and now you have \$500 million and more in sales. So, I know this is – you've had a deceleration and it's hard to commit to where the clearing margin of this business is. I

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assume it's higher, at least 13% on the sales base. But is there any reason why it shouldn't be or is there any reason why it should be even higher than that 13%?

Michael R. Egeck*Chief Executive Officer & Director, Leslie's, Inc.*

A

Well, look, I think we – it's early to talk about 2024, but in terms of where we were pre-pandemic with our gross margins and our operating margins, we feel that the headwinds we've got this year and particularly in this quarter, do abate, and feel like we've got a pretty clear path to recover to those levels. At least those levels.

Simeon Ari Gutman*Analyst, Morgan Stanley & Co. LLC*

Q

Right. Okay. Thank you.

Michael R. Egeck*Chief Executive Officer & Director, Leslie's, Inc.*

A

Yeah.

Operator: Our next question comes from Steven Forbes with Guggenheim Securities. Please go ahead.

Steven Forbes*Analyst, Guggenheim Securities LLC*

Q

Good evening, Mike, Steve, Scott. I wanted to maybe expand on Simeon's question, but in particularly focus on the customer file dynamic. So Mike, maybe you can just expand on your learnings from the quarter as it pertains to the customer file, down 8%, and specifically looking for any insight into what's really driving the reduction, right? Is the consumer is migrating back to maybe its legacy provider or outlet? Is it marketplace disruption? Is it mass? And in on that also, like when should we expect Leslie's to return to positive file growth?


Michael R. Egeck*Chief Executive Officer & Director, Leslie's, Inc.*

A

Yeah. Stephen, thanks for the question. [ph] The – think (29:18) the way we're thinking about the file or the lack of file growth or file shrinking 8% has a lot to do with the two surveys that we ran, which showed a larger-than-normal amount of product leftover in the industry, in the consumer's hands. We've turned to calling it the garage and shed inventory internally. And one of those surveys we conducted on our own through a third party, and one after we [indiscernible] (29:54), we were contacted by one of our chemical partners who had run a similar survey of a similar size and come up with remarkably similar results. So we have some idea of what that size is now. And though they came at the number in different ways, again, the final impact in terms of a headwind is quite similar.

So there's definitely some of that going on. And when you think about a need-based industry, right, that's predominantly non-discretionary spend, the question is well how can non-discretionary spend be down, and non-discretionary spend for the quarter was down 6%. Well, it's down – it's only down if need is impacted. And two things impacted need in the quarter. The first was weather, it's coldest weather in a decade, according to Planalytics. Coldest weather in 19 years in June, the start of the pool season, from Weather Trends International. So colder weather means less need for sanitizers, means less people needing to come in and purchase. And that impacts our file because our file is active members.

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And then when you look at the surveys that were conducted and found leftover inventory, which is first of all, highly unusual, I'm going to say unprecedented in our experience. That also decreases the need to purchase. And we've got some feedback from our stores that they were hearing that from customers as they were coming in, particularly with regards to our water tests. Even in a down quarter, we ran more water [ph] tests (31:37) than prior year's period, but the conversion off those tests was lower. And what we were hearing from the stores when we questioned it, it was that they were hearing that people had – already had those chemicals.

So it's a highly unusual situation. When we think of what the duration might be, I will say that both of those surveys, there was no mention from consumers in their self-reporting that they had supplies that would last past the season. So we believe this is a one-season occurrence based on three years of highly unstable supply and price inflation, leading people to stockpile.

Now, the truth is we won't be able to know that for sure. Our way to size that will be with additional consumer surveys. We'll do them at the end of this season, and we'll do them before the start of next season. And that'll be our way of confirming that – what we believe, which is that that extra inventory will be out of consumers' hands by next pool season.

[indiscernible] (32:50)

Steven M. Weddell

Chief Financial Officer, Treasurer & Executive Vice President, Leslie's, Inc.

A

...you answered the question with regard to non-discretionary items, given the discretionary decline as well had a material impact on overall traffic. So that's another contributor, if you get outside of the non-discretionary product and look at the total decline in the customer count.

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. That's a good point...

[indiscernible] (33:12)

Steven Forbes

Analyst, Guggenheim Securities LLC

Q

Thanks, Steve. And maybe just a quick follow-up on PRO, right? Sort of a similar question, they're down 3%. But as we think about the growth in PRO stores, we think about the growth in PRO Partner contracts on a year-over-year basis, anything specifically to note that helps explain what's transpiring within the PRO segment? Is that just chemical mix or are you seeing some – are you seeing less engagement from your PRO affiliate contracts? Any color on the PRO segment would be helpful.

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

A


I would say that the PRO business has become more competitive, and some others have reported, we have seen trichlor deflation in that category, and that was a pretty significant headwind to the PRO business in the quarter and year to date.

Steven Forbes

Analyst, Guggenheim Securities LLC

Q

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Thank you.

Operator: Our next question comes from Ryan Merkel with William Blair. Please go ahead.

Ryan Merkel

Analyst, William Blair & Co. LLC

Q

Thanks. Good afternoon. Mike, I was hoping you could address the risk that chemical prices keep falling. And have you seen competitors cut prices, when you cut in June?

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. Ryan, thanks for the question. Yeah, I think it's important to understand that the price actions we took on June 1 were to get ourselves level with [ph] specialty retail (34:52). And since we've done that, we haven't seen any reaction from specialty retail to take prices lower, [ph] list prices (35:01). And in addition, we haven't seen any outsized promotional activity in the business. So, right now, it looks like we have a stable pricing situation and a stable promotional environment in the Residential Pool space.

Ryan Merkel

Analyst, William Blair & Co. LLC

Q

Okay. That's good to hear. And then my follow-up, do you have any goals for inventory reduction, cost savings in COGS, cost savings in SG&A that you can share with us?

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. We're not, we're not sharing any specific inventory goals at this moment. As we said, Steve said in his script, we'll be lower than we were last year. We're obviously working to work that number down as low as we can. But we haven't – we're not going to comment on what our internal targets are.

With regards to SG&A, as we talked about SG&A and in my comments in the script, we look to be \$15 million to \$20 million lower in Q4 this year versus prior year. Also working diligently on reducing cost run rate as we go into 2024. And we think we have a pretty good path there as well. Obviously, the inventory buildup and the associated costs with that, offsite storage, additional labor, increased transportation, those costs are in our margin. Those also were flexed up given the rather extraordinary inventory levels we took to ensure supply and we're unwinding those now. It'll start in the fourth quarter and should be completed by the end of the year.

Ryan Merkel

Analyst, William Blair & Co. LLC

Q

That's helpful. Best of luck.

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

A

Thanks.

Operator: Our next question comes from Dana Telsey with Telsey Advisory Group. Please go ahead.

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Q

Hi, good afternoon, everyone. As you think about the sales decline of around 9% this quarter and you think about the cadence going through as we go into the next fiscal year, are there any puts and takes of how you're planning the business and how you're thinking about whether it's traffic, whether it's an IE transaction or discretionary, non-discretionary, how you plan to market it, or how you're [ph] re-sorting (37:29) the stores in order to minimize gross margin erosion and working to drive demand and seeing demand? Thank you.

Michael R. Egeck*Chief Executive Officer & Director, Leslie's, Inc.*

A

Yeah. Dana, thanks for the question. Look, we start out each year planning whether to be normal, but this year was clearly an aberration of that. We do believe that weather should be at least neutral, in a comparable basis, should be a bit of a tailwind going in next year. The same with consumer inventory. That gets worked through the channel, that should be a tailwind for us as well.

The headwinds into next year in terms of sales is we got a little out of our normal lane in terms of pricing going into the quarter, we were a little bit above specialty retail. We've done that in the past and had those prices come up, we've been able to move up in price and have others follow. That didn't happen this year. So I think that's a good learning from us. And we will keep our historical price position of just below or equal to specialty and just above mass.

And then as we think about additional puts and takes in the next year, in a need-based industry, the way we think about marketing is it doesn't drive need. Need comes from the installed base. It does drive market share gains. The challenge we've had with marketing this year is with the headwinds of weather and some excess inventory in a consumer channel, we weren't getting our typical ROI on marketing spend, and therefore haven't been as aggressive. We would expect that to normalize next year. And then our ability to market at a [ph] higher spend (39:14) in marketing – invest in marketing, sorry, at a high ROI, should drive – should get us back on track with market share gains.

Dana Lauren Telsey*Analyst, Telsey Advisory Group LLC*

Q

Got it. And then just as you finished out this quarter, was there any change in the quarterly progression or the cadence of the quarter?

Michael R. Egeck*Chief Executive Officer & Director, Leslie's, Inc.*

A


The – June was very tough in Q3 for us. I quoted that it was the toughest quarter overall in terms of weather from Planalytics in a decade. And Weather Trends International had it as the coldest June in 19 years. So we came into the season, as we always do, waiting to see what kind of reaction we get over the Memorial Day weekend. And it was very disappointing just to see no lift in the business. And that's when we started both surveying customers, as well as speaking more directly to our district managers and store owners about what was going on, and started to take the price actions that we did on June 1. So it was a challenging traffic situation for the entirety of the quarter.

Dana Lauren Telsey*Analyst, Telsey Advisory Group LLC*

Q

Got it, thank you.

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Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah.

Operator: Our next question comes from Elizabeth Suzuki with Bank of America. Please go ahead.

Elizabeth L. Suzuki

Analyst, BofA Securities, Inc.

Q

Great, thank you very much. So I guess you mentioned you're seeing some of the same factors impacting the PRO business as the retail business. I mean, does that include the pantry-loading behavior of folks using chemicals they stored up from last year? I mean, are PROs doing that too? And then is there anything you can do to educate customer about issues that they might experience if they're using expired chemicals?

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah, Liz. Thanks. Good questions. We did not see that behavior on the PRO side. Now our survey was just to residential consumers, but I don't believe we're seeing that on the PRO side. I think the PROs went into the season believing that trichlor pricing should come down, and they were correct. I think residential consumers came out of last year wondering where price and where availability would be, and ended up stockpiling based on the prior two years that they had experienced.

[indiscernible] (41:44)

Elizabeth L. Suzuki

Analyst, BofA Securities, Inc.

Q

Go ahead.

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

A

Was there a second part to your question? Sorry.

Elizabeth L. Suzuki

Analyst, BofA Securities, Inc.

Q

Oh, no, just about like educating the customer about what could happen if they're using these older chemicals, and just if there's anything from a marketing standpoint that you can do to kind of get that message across.


Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. Very good point. And yes, we're doing that in our blogs, and that's why this is so unprecedented. It's not – these are not chemicals you want to store. And look, it's predominantly trichlor and cal-hypo and trichlor loses its efficacy if not stored properly and lose it within a year, depending on temperature and ventilation. And cal-hypo is a little more dramatic because the granular turns to solid, and it also has combustible properties. So, not something that consumers should be storing and not something we've seen them store in the past.

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Elizabeth L. Suzuki

Analyst, BofA Securities, Inc.

Q

All right. Great. Thank you.

Operator: Our next question comes from Garik Shmois with Loop Capital Markets. Please go ahead.

Garik Shmois

Analyst, Loop Capital Markets LLC

Q

Oh, hi. Thanks. You touched on the SG&A reductions that you're expecting in the fourth quarter [indiscernible] (43:05) in lower costs compared to the prior year period. Just wondering if you could provide maybe some more color on the steps that you're taking and how you're viewing SG&A at this point as we're moving closer into [indiscernible] (43:18) 2024?

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. Gary, good question. We're – look, the way we're thinking about SG&A is we're going to reduce it both in Q4 in our run rate into 2024 to help make our P&L more durable against some of the shocks that we experienced this quarter.

And in terms specifically of SG&A areas we're addressing in the fourth quarter and into next year, I can tell you, overall, it's up and down the P&L. I spoke a little bit earlier about marketing. Marketing comes down naturally when we can't get the ROI that we expect on our investments. So, marketing has come down in Q3 and Q4 and for the year but we would expect that to recover in the next year when the consumer inventory is absent.

With traffic being down as much as it has, driven by weather and consumer inventory, we've taken down labor hours in the stores accordingly. In terms of just being more efficient, we are layering our corporate organization, more efficiency, more optimization, and then little things like travel, supplies all out of push across those categories. And then, finally, a big chunk of it is performance compensation. This is not a year where we will be paying ourselves or our associates.

Garik Shmois

Analyst, Loop Capital Markets LLC

Q

Understood. Wanted to follow-up on inorganic growth. Does the challenging environment right now change your view on either M&A or new store expansion?

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

A

No, it doesn't, because we think weather over time tends to normalize. And if consumers have inventory in their garages and sheds, as it appears they do, that's a very unusual inventory – or very unusual situation. And the catalyst for it, which is three years of spotty availability and increasing price, that catalyst is gone. Inventory is readily available and it's readily available across all sizes. So, we would expect that to be transitory as well.

And the challenges that we're facing in the quarter and this year, so is specialty retail. And I think you can see that in some of the distributors' results. So, it actually makes M&A more attractive in terms of the multiples that we are able to execute against. But given the results in this quarter and our outlook for the year, as we said in our

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prepared remarks, we're going to be prudent about it and we're going to watch the pace of M&A, but we still think it's an important initiative for Leslie's over the long term.

Garik Shmois*Analyst, Loop Capital Markets LLC*

Okay. Understood. Thanks again.

Michael R. Egeck*Chief Executive Officer & Director, Leslie's, Inc.*

Yeah.

Operator: Our next question comes from Jonathan Matuszewski with Jefferies. Please go ahead.

Jonathan Matuszewski*Analyst, Jefferies LLC*

Hey. Good afternoon. Thanks for taking my questions. The first one was on pricing actions. Mike, I think you mentioned the guidance assumes no change in pricing. Is there anything that would lead you to deviate from current pricing? I guess another way of asking, if traffic or transaction is softer, would you further reduce pricing to try and stem the excess transaction decline? Thanks.

Michael R. Egeck*Chief Executive Officer & Director, Leslie's, Inc.*

Yeah. When I said no change in current pricing in the prepared remarks, that was specifically for PRO, where we have seen some trichlor pricing come down, offset a little bit by cal-hypo, which is up.

In terms of residential, I think currently, we view the demand in the industry at this moment as fairly inelastic. Now, when we think about what's driving the traffic declines, and the traffic declines, we don't think, are being driven by price sensitivity, they're being driven by weather and consumer inventory, which we believe are transitory. So, we need to wait those out.

The price actions we took was because we had gotten, as I mentioned, above specialty retail, and that's not a position that our consumers are used to seeing us in and not one that we want to be in. So, we took our actions on 6/1. We lined up with the industry. We are where we want to be from a price standpoint. And now, we need to let this year play out, the weather normalize, consumer inventory normalize, and we should be back to our regular cadence of growth.


Jonathan Matuszewski*Analyst, Jefferies LLC*

Got you. That's helpful. And then, just my follow-up, it sounds like the customer insights were picked up on some price sensitivity. Curious to what extent you think equipment upgrades and related spend that didn't materialize in the second half of this year could potentially benefit revenue next year. Thanks.

Michael R. Egeck*Chief Executive Officer & Director, Leslie's, Inc.*

Yeah. It's also a good question. Just the general macroeconomic situation, [indiscernible] (48:50) customer price sensitivity across industries. In the surveys – in a survey that we did and the one that we had access to, it was

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also mentioned very specifically by customers. And I just think that – look, I think the entire industry took an awful lot of price over the last three years and there is still cost pressures. So there's some opportunity to take price, but I think the industry is going to be very mindful and thoughtful about how much price we take because we certainly don't want to create any demand destruction.

I think when you look at the equipment business, we reported ours was down 8% and then POOLCORP reported theirs was down 8% as well. That's predominantly volume at the moment. And I think the read on that is that, yes, people with a certain heightened sense of price sensitivity might be delaying some upgraded purchases, but certainly, the brake fix business, that is durable and continuing on.

Jonathan Matuszewski
Analyst, Jefferies LLC

Q

Best of luck.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Thanks.

Operator: Our next question comes from Andrew Carter with Stifel. Please go ahead.

W. Andrew Carter
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Yeah. Hey. Thank you. So, a couple questions I wanted to ask are really about visibility into the business. First is in terms of pricing, like getting out over your skis relative to specialty retail, I mean, how good are your real-time insights into kind of your price levels? I know you do channel checks, but is [indiscernible] (50:32) a DIY or I don't know that they get listened to if they say, hey, it's cheaper down the street. And second to that, how quickly do you respond to feedback?

And then, just a second kind of point, putting all the consumer survey work aside, have you looked at considering how many pounds of chemicals went out the door from various locations over the last four years, and what a reversion to the mean would look like considering market share gains, just to kind of give you a sense of where you actually – where you could land? Thanks.

Michael R. Egeck
Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. Thanks, Andrew. So, a few questions in there. I'll talk about price visibility first and how we think about price. We – in 2021 and 2022, we were able to influence pricing in the residential market. We came in to the pre-season, I would say, April, May period, kind of pushing price, taking price and had the market follow us. When we went in this year, our pricing coming into the quarter and into the year was our Q4 pricing. So, our intent was to hold that pricing for the balance of this year.

We knew prior to Memorial Day that our pricing was a little above specialty. We thought specialty might come up and meet us. They did not. And it was after that on 6/1 that we took our price actions. And we have good visibility into pricing. I mean, we understood what that dynamic was. We thought we'd be able to move price up and we weren't able to. We use a combination of Web scraping, and with over 1,000 stores and store managers and DMs out there, we have a fairly fulsome ability to track our mom-and-pop competitors as well.

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And then, I think on the last question about the pounds analysis, we are looking at that. I think the surveys we did were not specific to Leslie's. And we think that's a an important component of how we think about the headwind created for this year, because our growth, as you know, is a combination of comp growth in a typical year, but also market share gains, and both become more difficult when there is excess inventory in the channel.

W. Andrew Carter

Analyst, Stifel, Nicolaus & Co., Inc.

Q

I'll go and pass it on since I asked two. Thanks.

Operator: Our next question comes from Peter Benedict with Robert W. Baird. Please go ahead.

Justin E. Kleber

Analyst, Robert W. Baird & Co., Inc.

Q

Yeah. Good afternoon, guys. It's Justin Kleber on for Pete. Mike, just wanted to ask, I imagine you're having discussions today with your vendors regarding the 2024 pool season. Just curious what does the costing backdrop look like sitting here today, particularly on these non-discretionary products? Do you think product costs are still going to move higher next year? Just trying to understand this product margin pressure. Could it linger if you and the industry just can't pass through any more price? That's my first question.

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

A

Yeah. I appreciate the question. It's too early for us to talk about that. We have not really started price discussions with our vendors yet. Typically, that takes place 30 to 60 days from now. I think it's important for both sides to understand kind of how the season wraps up, get a little further through our Q4 and their Q3, and then we will sit down and talk about the dynamics that we see. There's certainly some cost pressure, but I think there's also, after three years of consumers absorbing a lot of inflation, there's definitely some more price sensitivity from customers. I mean, we have 85,000 consumers a day coming through our doors in our stores. We are ears to the ground, I would say, the first line on hearing from consumers. And I think the message has been pretty clear that their appetite for continuous price increases is a little more nuanced than it has been in the past.

Justin E. Kleber

Analyst, Robert W. Baird & Co., Inc.

Q

Got it. Okay. No, that makes sense. And then, an unrelated follow-up on leverage, Steve mentioned the 3 times target. Just in terms of the path to get there, is that more about natural deleverage as EBITDA recovers and starts to grow again or are you foregoing some store growth and M&A opportunities in the near term and deploying capital into debt pay-down?


Steven M. Weddell

Chief Financial Officer, Treasurer & Executive Vice President, Leslie's, Inc.

A

Yeah. Thanks for the question, Justin. I think there's a couple different ways to think about it. We would expect to reduce leverage like combination of growth in the business, so just naturally and potentially allocate some cash towards debt pay-down. If you think about cash flow for this year, it's been impacted by working capital primarily. If you look at our CapEx, it's kind of in line with how we would talk about it, and we talk about kind of 3% of total sales. [indiscernible] (55:56) come in a little shy of that this year. What – from an M&A perspective. Certainly slower pace this year from a dollars perspective, but continue to do attractive deals and acquire businesses at great multiples. Expect that to continue through Q4 as well at a modest clip.

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And so, when it comes down to 2023, if you think about the cadence for working capital last year, we were buying a lot of inventory late in the season, led to accounts payable and other accrued expenses that ended up getting paid off in the first quarter of 2023. At this point, we've talked about bringing inventory down pretty aggressively in the year end, but as a result, we'll have lower accounts payable and certainly some [ph] accruals (56:38) from performance incentives. So don't expect a big cash flow year in 2023, but do see opportunity for improvement in 2024, which could lead us to continue to deploy capital towards debt pay-down, as well as invest in stores and M&A.

Last comment I'd make on that, as you think about new store growth, fairly modest capital requirements for a new store location or a conversion as we convert stores to PROs. And if you look at the M&A that we're executing in the current environment, it's a lot of specialty retailers in the Sunbelt, smaller locations, not a big cash stream from an M&A perspective. So – but clear opportunity to continue to deploy capital towards growth, but it'll probably look a little different than it has the last couple of years.

Justin E. Kleber

Analyst, Robert W. Baird & Co., Inc.

Q

All right. Thanks for that, Steve. And best of luck, guys.

Operator: There are no further questions. At this time, I would like to turn the floor back over to the management for closing comments. Please go ahead.

Michael R. Egeck

Chief Executive Officer & Director, Leslie's, Inc.

Yeah. I would like to thank everybody for joining us today and your continued interest in Leslie's, and we look forward to sharing our Q4 and year-end results. Thanks.

Operator: This concludes today's conference call. You may disconnect your lines at this time. Thank you for your presentation and have a good day.

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Exhibit 10

SEC Form 4

FORM 4**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

OMB APPROVAL

OMB Number: 3235-0287
 Estimated average burden
 hours per response: 0.5

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP

☐ Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934
 or Section 30(h) of the Investment Company Act of 1940

1. Name and Address of Reporting Person* <u>Egeck Michael R.</u> (Last) (First) (Middle) <u>2005 EAST INDIAN SCHOOL ROAD</u> (Street) <u>PHOENIX AZ 85016</u> (City) (State) (Zip)	2. Issuer Name and Ticker or Trading Symbol <u>Leslie's, Inc. [LESL]</u> 3. Date of Earliest Transaction (Month/Day/Year) <u>02/08/2022</u> 4. If Amendment, Date of Original Filed (Month/Day/Year)	5. Relationship of Reporting Person(s) to Issuer (Check all applicable) <input checked="" type="checkbox"/> Director 10% Owner <input checked="" type="checkbox"/> Officer (give title below) Other (specify below) <u>Chief Executive Officer</u> 6. Individual or Joint/Group Filing (Check Applicable Line) <input checked="" type="checkbox"/> Form filed by One Reporting Person Form filed by More than One Reporting Person
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Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed Of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock, par value \$0.001 per share	02/08/2022		P		101,700	A	\$19.66 ⁽¹⁾	2,015,931	D	

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Securities Underlying Derivative Security (Instr. 3 and 4)	8. Price of Derivative Security (Instr. 5)	9. Number of derivative Securities Beneficially Owned Following Reported Transaction(s) (Instr. 4)	10. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	11. Nature of Indirect Beneficial Ownership (Instr. 4)
				Code	V		Date Exercisable	Expiration Date					

Explanation of Responses:

1. This transaction was executed in multiple trades at prices ranging from \$19.27 to \$19.80. The price reported above reflects the weighted average price. The Reporting Person hereby undertakes to provide upon request to the SEC staff, the Issuer, or a security holder of the Issuer full information regarding the number of Shares and prices at which the trades were effected.

Remarks:

/s/ Brad A. Gazaway, as
 Attorney-in-Fact for Michael R. Egeck 02/09/2022

** Signature of Reporting Person Date

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

* If the form is filed by more than one reporting person, see Instruction 4 (b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

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Exhibit 11

SEC Form 4

FORM 4**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

OMB APPROVAL

OMB Number: 3235-0287
 Estimated average burden
 hours per response: 0.5

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP

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Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934
 or Section 30(h) of the Investment Company Act of 1940

1. Name and Address of Reporting Person* <u>Weddell Steven M</u>	2. Issuer Name and Ticker or Trading Symbol <u>Leslie's, Inc. [LESL]</u>	5. Relationship of Reporting Person(s) to Issuer (Check all applicable) Director 10% Owner <input checked="" type="checkbox"/> Officer (give title below) Other (specify below) <u>See Remarks</u>
(Last) (First) (Middle) <u>2005 EAST INDIAN SCHOOL ROAD</u>	3. Date of Earliest Transaction (Month/Day/Year) <u>02/08/2022</u>	
(Street) <u>PHOENIX AZ 85016</u>	4. If Amendment, Date of Original Filed (Month/Day/Year)	6. Individual or Joint/Group Filing (Check Applicable Line) <input checked="" type="checkbox"/> Form filed by One Reporting Person Form filed by More than One Reporting Person
(City) (State) (Zip)		

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed Of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock, par value \$0.001 per share	02/08/2022		P		25,000	A	\$19.8 ⁽¹⁾	1,411,377	D	

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Securities Underlying Derivative Security (Instr. 3 and 4)	8. Price of Derivative Security (Instr. 5)	9. Number of derivative Securities Beneficially Owned Following Reported Transaction(s) (Instr. 4)	10. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	11. Nature of Indirect Beneficial Ownership (Instr. 4)
				Code	V		Date Exercisable	Expiration Date					
						(A) (D)			Amount or Number of Shares				

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Remarks:

Executive Vice President, Chief Financial Officer and Treasurer

/s/ Brad A. Gazaway, as
Attorney-in-Fact for Steven M. Weddell 02/09/2022

** Signature of Reporting Person Date

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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